

AGRIBUSINESS DEVELOPMENT CORPORATION: REVISITED

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FOREWORD

This report was prepared in response to Act 267, Session Laws of Hawaii 2006, that noted that the Agribusiness Development Corporation (ADC) did not prepare a mandated Hawaii agribusiness plan and requested the Legislative Reference Bureau to identify and consult with governmental agencies and stakeholders in the agricultural industry to identify the necessary elements to be included in the Hawaii agribusiness plan and to obtain suggestions to improve ADC.

The Bureau identified and sent out fifty-four letters to governmental agencies and industry stakeholders asking for their input to this legislative request. The bulk of this report is a compilation and discussion of the responses that the Bureau received to its inquiry. The Bureau extends its appreciation to those agencies, organizations, and individuals identified in the report for their valuable input. The Bureau further extends its appreciation to the ADC staff for its candid responses to our requests for information.

Ken H. Takayama
Acting Director

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TABLE OF CONTENTS

	<i>Page</i>
FOREWORD.....	<i>iii</i>
SUMMARY	<i>vi</i>
1. INTRODUCTION.....	1
Scope of Report.....	1
Methodology	2
Organization.....	2
Glossary	3
2. LEGISLATIVE HISTORY AND CREATION OF THE AGRIBUSINESS DEVELOPMENT CORPORATION	4
3. AGRIBUSINESS DEVELOPMENT CORPORATION	8
Legislative Reference Bureau Report No. 2, 1997	8
Present Operations and Activities of ADC	9
Annual Reports to the Governor and Legislature	10
Summary	17
4. GOVERNMENT AGENCIES AND STAKEHOLDERS IN THE AGRICULTURAL INDUSTRY	18
Responses from Government Agencies and Stakeholders.....	18
No Further Study Needed; Implementation Needed.....	19
Section 163D-5(a), Hawaii Revised Statutes	20
Redefining the Role of ADC.....	22
ADC Funding and Resources.....	24
Performance Standards	25
DOA Oversight of ADC Programs and Projects	26
Hawaii Procurement Code Exemption.....	27
5. FINDINGS AND RECOMMENDATIONS	30
Findings.....	30
Recommendation No. 1	32
Recommendation No. 2	33
Recommendation No. 3	34

APPENDICES

A.	Act 267, Twenty-third Legislature, Regular Session of 2006, State of Hawaii.....	35
B.	List of Potential Respondents	38
C.	Copy of Letter to Each Potential Respondent.....	42
D.	Copy of Each Response from Respondents.....	44
E.	List of Current Members of the ADC Board	90
F.	Agribusiness Development Corporation Annual Report and Progress Report, December 1997	91
G.	Compilation of the Agribusiness Development Corporation Portion of Department of Agriculture Reports	116
H.	Agribusiness Development Corporation's Action Plan	135
I.	Waiahole Water System; List of Water Users, Leasees and Licensees.....	146
J.	Hawaii Farm Bureau Federation, A Strategic Plan for Hawaii's Agriculture, May 16, 2004.....	147
K.	Department of Agriculture Annual Report, Annual Operating Budget FY 1994-1995 to FY 2004-2005.....	165

SUMMARY

As the State of Hawaii was entering the last decade of the twentieth century with the accelerated closings of sugar and pineapple plantations across the State, the Legislature viewed this occurrence not as a reason for panic but as an "unprecedented opportunity for the conversion of agriculture into a dynamic growth industry."¹ It was estimated that by the end of the century, seventy-five thousand acres of agricultural lands and fifty million gallons per day of irrigation water would be released from plantation operations. This release of valuable arable land, along with supporting infrastructure, including irrigations systems, roads, drainage systems, processing facilities, and warehouses, was viewed as a windfall and a challenge to both the public and private sector to conserve and convert all this land and infrastructure into smaller aggressive diversified agricultural enterprises.

To assist in this conversion, the Legislature established the Agribusiness Development Corporation (ADC), codified in chapter 163D, Hawaii Revised Statutes, as a:

[P]ublic corporation to administer an aggressive and dynamic agribusiness development program. The corporations shall coordinate and administer programs to assist agricultural enterprises to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises, to carry on the marketing analysis to direct agricultural industry evolution, and to provide the leadership for the development, financing, improvement, or enhancement of agricultural enterprises.

Accordingly, at its inception, ADC had as its responsibilities transitioning plantation operations into new diversified agricultural enterprises, doing marketing analysis, and otherwise assisting in the development and financing of these new agricultural enterprises. To these were added additional tasks to go with ADC's "aggressive and dynamic" persona. However, in its adolescence and for whatever reasons, ADC appears to not have taken the giant strides that were anticipated. In a chicken or egg sense, there were real or perceived organizational or governance problems and budgeting or funding problems. After four years, there were calls for the repeal or extreme reorganization of ADC.

In 1997, the Legislative Reference Bureau was asked to study the operations of ADC for the purpose of improving its effectiveness in carrying out the original intent of its establishment. The Bureau did an in-depth formative evaluation of ADC, resulting in seven recommendations, ranging from a complete reorganization of ADC to a clarifying or reduction of the mission of ADC and other administrative in-house reforms.

While none of the recommendations of the Bureau, particularly suggestions to amend certain statutory provisions relating to ADC, were adopted, the ship appeared to right itself and, in 2003, the Legislature appeared satisfied that any organizational or governance problems had been resolved and expressed some satisfaction with recent accomplishments of ADC. Yet, three years later, there appeared some concern that ADC never met a statutory mandate for the preparation of the Hawaii agribusiness plan. Accordingly, Act 267, Session Laws of Hawaii

1. This quote and all others in this Summary are from section 163D-1, Hawaii Revised Statutes.

2006, directed the Bureau to identify and consult with governmental agencies and industry stakeholders in the agricultural industry to identify the necessary elements to be included in the Hawaii agribusiness plan and to obtain suggestions to improve ADC. Hence: *Agribusiness Development Corporation: Revisited*.

In this second review and report relating to ADC by the Bureau, the principal finding of the Bureau was that a majority of the governmental agencies and industry stakeholders responding to the Bureau's request for input rather aggressively noted that there have been numerous agricultural industry studies and plans over the decades. What was needed was not another plan, a Hawaii agribusiness plan, but an implementation of all the previously existing plans. Further, many respondents felt that the "elements" of the plan were already contained in section 163D-5(a), Hawaii Revised Statutes.

Of equal note was the comment among respondents that the role of ADC, particularly in relationship to the Department of Agriculture, should be reviewed and clearly delineated. A majority of respondents stated that the mission and scope of ADC should be reviewed and probably refocused. Many noted that ADC's assumed role has been limited to the primary of its many perceived responsibilities, as set forth in section 163D-1, Hawaii Revised Statutes. It is principally involved in taking over infrastructure and operations of agricultural infrastructure, primarily irrigation systems, from prior abandoned plantation operations. It has repaired and restored these systems and operates them for the benefit of adjoining public agricultural lands that ADC leases to tenant farmers or adjoining private landowners and tenants to whom ADC sells water rights. Many of these respondents believe that ADC should be limited to this important and vital role.

These and other findings are contained in the last chapter of this report, followed by some recommendations to the Legislature.

Chapter 1

INTRODUCTION

Scope of Report

During the Regular Session of 2006, the Legislature enacted Act 267, entitled Relating to Agriculture (see Appendix A). Act 267 noted that, in 1994, the Legislature created the Agribusiness Development Corporation (ADC). With the closing of many large sugar and pineapple plantations throughout the State, ADC was mandated to administer an aggressive and dynamic agribusiness development program that was to coordinate and administer programs to:

- (1) Assist agricultural enterprises to facilitate the transition of agricultural lands and infrastructure from plantation operations into other agricultural enterprises;
- (2) Carry out marketing analysis to direct a new agricultural industry evolution from mono-crop plantation operations to multi-crop diverse agricultural operations; and
- (3) Provide the leadership for the development, financing, improvement, or enhancement of agricultural enterprises.

One of the immediate responsibilities of ADC was to prepare the Hawaii agribusiness plan to define and establish goals, objectives, policies, and priority guidelines for its agribusiness development strategy. However, this plan was never created. Act 267 directed the Legislative Reference Bureau (Bureau) to conduct a study to assist ADC in identifying elements to be included in the Hawaii agribusiness plan. To do this, the Bureau was directed to:

- (1) Identify the government agencies involved and stakeholders who may directly benefit from the operations of ADC;
- (2) Consult with these agencies and stakeholders, including but not limited to individuals from the Department of Agriculture (DOA), ADC, University of Hawaii College of Tropical Agriculture and Human Resources (CTAHR), Hawaii Farm Bureau Federation, and county farm bureaus, as well as individual farmers and ranchers, as feasible;
- (3) Obtain suggestions to improve ADC and identify the necessary elements for developing the Hawaii agribusiness plan; and
- (4) Submit its findings and recommendations, including any proposed legislation, to the Legislature at least twenty days prior to the convening of the Regular Session of 2007.

Methodology

The first step undertaken to carry out this study was identifying governmental agencies, organizations, and other stakeholders in the agricultural industry who would be impacted by ADC and could be helpful to the Bureau in the completion of this study. Fifty-four potential respondents were identified. (A list of the potential respondents is contained in Appendix B.)

A letter was sent to each potential respondent, along with a copy of Act 267 (see Appendix C). The letter set forth the purpose of the study by the Bureau and asked the potential respondents to set forth:

- (1) Your understanding or perception as to what the role of ADC is or should be in the agricultural industry and, particularly, in relation to the DOA, CTAHR, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations;
- (2) Any recommendations that you may offer to improve ADC in its performance of its responsibilities;
- (3) The identification of elements that you believe are necessary for the Hawaii agribusiness plan and reasons supporting the inclusion;
- (4) Any proposed legislation that you believe will assist ADC in its mandated responsibilities; and
- (5) Any other suggestions as to how the Bureau may more effectively complete this study.

Fifteen responses were received, four from government agencies, four from service organizations, three from agriculturalists, and four individuals. (A copy of each response is contained in Appendix D.) These responses are reviewed and discussed in Chapter 4.

In addition to the Act 267 mandated letter survey of agencies and stakeholders, annual reports of ADC, which were contained in the DOA annual report to the Governor and Legislature, were reviewed and several meetings were held with ADC Executive Director, Alfredo A. Lee, to accurately as possible understand and set forth the efforts and undertakings of ADC from its inception to date. Mr. Lee was very forthright and helpful in setting out and explaining the undertakings and efforts of ADC under his watch.

Organization

This chapter provides the direction and mandated responsibility of the Bureau set forth in Act 267. Chapter 2 recounts the legislative history of ADC, and Chapter 3 describes ADC and sets out the undertakings and efforts of ADC from its inception to date. Chapter 4 discusses the

INTRODUCTION

responses to the letter survey sent out to agricultural agencies and stakeholders, and Chapter 5 contains the Bureau's conclusions and recommendations.

Glossary

For the convenience of review, the following frequently referred to abbreviations and acronyms are set out in alphabetical order:

ADC	Agribusiness Development Corporation
ADD	Agricultural Development Division, Department of Agriculture
ALD	Agricultural Loan Division, Department of Agriculture
AWUDP	Agricultural Water Use and Development Plan
BOA	Board of Agriculture
CWRM	Commission on Water Resources Management
CTAHR	College of Tropical Agriculture and Human Resources, University of Hawaii
DOA	Department of Agriculture
DBEDT	Department of Business, Economic Development, and Tourism
HAP	Hawaii agribusiness plan
HARC	Hawaii Agriculture Research Center
HC&S	Hawaiian Commercial & Sugar Company
HFBF	Hawaii Farm Bureau Federation
HRS	Hawaii Revised Statutes
KSBE	Kamehameha Schools Bishop Estate
LURF	Land Use Research Foundation
MCFB	Maui County Farm Bureau
PMRF	U.S. Navy's Pacific Missile Range Facility
WWS	Waiahole Water System

Chapter 2

LEGISLATIVE HISTORY AND CREATION OF THE AGRIBUSINESS DEVELOPMENT CORPORATION

The conception of the Agribusiness Development Corporation (ADC) was the result of an administration bill introduced during the Regular Session 1994, as Senate Bill No. 3045. For most of its passage in committees, it had the overwhelming support of the administration (including the Department of Agriculture (DOA), Department of Land and Natural Resources, Office of State Planning, as it was then known, and Department of Hawaiian Home Lands), along with the Land Use Research Foundation, Hawaii Sugar Planters Association, College of Tropical Agriculture and Human Resources (CTAHR), Hawaii Farm Bureau Federation, and many large plantation operators and large land owners. Throughout this legislative process there were no major events, other than standard tweakings, such as how to appoint the members of the board of directors (by the Governor or President of the Senate and Speaker of the House of Representatives, with the former prevailing), whether to give ADC the power to acquire and alienate lands (it may), whether to allow ADC the power to float revenue bonds (it may), and whether to sunset the ADC in four years (it was not).

The result of this effort was the enactment of Act 264, Session Laws of Hawaii 1994, and the creation of ADC. At that time, the Legislature found that the shutting down and downsizing of the sugar and pineapple industries, resulting in abandoning approximately 75,000 acres of arable land, along with miles of irrigation systems and 50,000,000 gallons per day (mpg) of irrigation water, roadways, and other agricultural facilities presented "an unprecedented opportunity for the conversion of agricultural industry in the State into a dynamic growth industry."¹ The Legislature was determined to take this "windfall" of arable land and other agricultural infrastructure and create a diverse and opportunistic agricultural industry to meet local, national, and international opportunities. ADC was to become the "public corporation to administer an aggressive and dynamic agribusiness development program."²

To bring this dream to fruition, ADC was granted extraordinary powers. Among these were the powers to:

- (1) Carry out surveys, research, and investigations into technological, business, financial, consumer trends, and other aspects of agricultural production in the national and international community;
- (2) Acquire interests in property, real and personal, to advance the broad purposes of Chapter 163D, Hawaii Revised Statutes (HRS);
- (3) Acquire, construct, rehabilitate, and improve any infrastructure or accessory facilities in connection with any project;

1. Section 163D-1, HRS.

2. *Ibid.*

LEGISLATIVE HISTORY AND CREATION OF THE AGRIBUSINESS DEVELOPMENT CORPORATION

- (4) In cooperation with DOA or through direct investment with a professional investor or enterprise acquire, construct, and operate water facilities for conveying and transmitting water for irrigation and agricultural uses, at rates to be determined by ADC;
- (5) Conduct detailed marketing analysis to develop marketing and promotional strategies and specialized programs to exploit local, national, and international markets;
- (6) Provide allowances and grants to qualified agriculturalists for the development of new crops and products;
- (7) Provide advisory, consultative, training, and educational services to carry out the purposes of Chapter 163D;
- (8) Create subsidiary corporations for specific projects;
- (9) Develop and implement agricultural projects where large tracts of agricultural land have been or will be taken out of agricultural production;
- (10) Issue and sell bonds, as authorized by the Legislature, for the purposes of acquiring, constructing, and equipping any project facility and establishing assessment areas of benefiting real properties for the repayment of the bonds; and
- (11) Do all things necessary to carry out the purposes of Chapter 163D.

Given all these extraordinary powers, this "public agency on steroids" was to deliver the legislative dream of transforming a declining large plantation based agricultural industry into a diversified dynamic growth industry impacting the local, national, and international scene.

However, this uneventful, although extraordinary, genesis led to a rather tumultuous adolescence. At the age of four, ADC was facing repeal. During the Regular Session of 1998, in its original form, H.B. No. 3625 called for the reorganization of the DOA, including the repeal of ADC and the transfer of the proactive functions of the ADC into the newly reorganized DOA. However, in the Senate, the Committee on Economic Development found that "The Agribusiness Development Corporation should maintain a degree of autonomy from the Department of Agriculture."³ In conference, the House and Senate compromised and retained the ADC; however, H.B. No. 3625, C.D. 1 (Act 176, Session Laws of Hawaii 1998), changed the composition of the board of directors of ADC to consist of the members of the Board of Agriculture, effective July 1, 1999.⁴ Act 117, Session Laws of Hawaii 1999, extended the effective date of the change to July 1, 2001, and Act 213, Session Laws of Hawaii 2001, noting the appointment of five new members to the Board of Directors of ADC in September 1999, further extended the effective date of the change to July 1, 2005.

3. Senate Standing Committee Report No. 2867, March 25, 1998.

4. Conference Committee Report No. 154, May 11, 1998.

Finally, during the Regular Session of 2003, the Senate Committee on Water, Land, and Agriculture in Standing Committee Report No. 393, reporting on S.B. No. 1258, noted the following:

Your Committee finds that, according to current statute, effective July 1, 2005, the composition of the ADC board will consist entirely of members of the Board of Agriculture (BOA). The DOA has different functions from the ADC, BOA members function more as a review committee and deal primarily with regulatory and agriculture park issues, while the ADC board functions as a work group to deal with transitional issues. Currently, the ADC board members are selected and appointed by the Governor based on their knowledge, experience, and expertise in agriculture, marketing, banking, finance, real estate, and management.

Your Committee also finds that this measure will enable the ADC and Hawaii's agriculture industry to benefit from the expertise and pro bono work of professionals and executives...The ADC's recent accomplishment demonstrate that it is able to meet the challenges of the agricultural transition occurring in the State and deserves the expression of support shown by this measure in assuring its longevity.⁵

Apparent House concurrence with this position is indicated in the conference committee report of S.B. No. 1258 wherein the following was noted:

Your Committee finds that the organizational and governance problems that were the impetus for replacing the ADC board with the members of the BOA have been satisfactorily resolved. This measure will enable the ADC and Hawaii's agriculture industry to benefit from the expertise and pro bono work of professionals and executives. The ADC's recent accomplishments demonstrate that it is able to meet the challenges of the agricultural transition occurring in this State and deserves the expression of support shown by this measure in assuring its longevity.⁶

Thus, ADC was able to dodge its repeal, but another substantive change occurred to the ADC law in 2004. At its inception, in order to ensure that it would be able "to administer an aggressive and dynamic agribusiness development program," ADC was granted an exemption from Chapter 103D, HRS, the Hawaii Procurement Code, to allow it to respond to situations requiring immediate action. Act 216, Session Laws of Hawaii 2004, amended sections 163D-6, 163D-15.5, and 163D-17, HRS, removing ADC's exemption from the procurement code. The only oblique comment made by the Senate in proposing an amendment to the underlying House bill was the following comment in a committee report by the Senate Committee on Transportation, Military Affairs, and Government Operations:

5. Senate Standing Committee Report No. 393, February 14, 2003.

6. Conference Committee Report No. 95, April 25, 2003.

LEGISLATIVE HISTORY AND CREATION OF THE AGRIBUSINESS DEVELOPMENT CORPORATION

Your Committee finds that the amended measure, along with clarifications in the debarment process, and repeal of exemptions to chapter 103D, HRS, relating to the Hawaii Procurement Code, by state agencies, will result in advantages in procurement of goods, services, and construction by the citizens of this State. Equally as important, the basis for improving trust in government will be enhanced.⁷

Accordingly, without further explanation, ADC, along with other state agencies, lost its exemption from the Hawaii Procurement Code. This matter will be discussed further in Chapter 4.

The last relevant piece of statutory legislation relating to ADC is Act 267, Session Laws of Hawaii 2006, mandating this report by the Legislative Reference Bureau.

7. Senate Standing Committee Report No. 3196, April 8, 2004.

Chapter 3

AGRIBUSINESS DEVELOPMENT CORPORATION

Legislative Reference Bureau Report No. 2, 1997

In 1997, House Resolution No. 193, H.D. 1, requested that the Bureau study the operations of the Agribusiness Development Corporation (ADC) for the purpose of improving the effectiveness of ADC in carrying out the intent of Act 264, Session Laws of Hawaii 1994.¹ That 1997 study:

- (1) Reviewed what was initially planned for, what was subsequently authorized, and what eventually materialized in the way of staffing for ADC;
- (2) Reviewed the status of the Hawaii agribusiness plan (the primary objective of Act 267, triggering this study);
- (3) Described the purpose and status of projects and programs undertaken by ADC and ADC's progress in eventually becoming a revenue-generating, self-supporting state agency;
- (4) Reviewed the results of a survey of ADC board members and administrative staff to evaluate the attitudes of the board members and former staff with respect to the ADC mission and the Department of Agriculture (DOA); and
- (5) Considered changing the administrative placement of ADC from DOA to another state agency.

The Bureau made the following seven recommendations:²

- (1) The Legislature consider lowering its expectations of ADC or give it more time and sufficient staffing to live up to these expectations.
- (2) The Legislature amend section 163D-3, HRS, by setting a specific date for the submission of the Hawaii agribusiness plan and require that all ADC projects and programs conform to the agribusiness plan.
- (3) The Legislature amend section 163D-7, HRS, to require ADC to prepare written plans for projects it undertakes to enable the ADC board to monitor the status and evaluate the progress, approve or disapprove, replicate or continue to advance each project undertaken by ADC.

1. Keith H. Fukumoto, *Plan(ning) Is Not a Four-Letter Word: A Formative Evaluation of the Agribusiness Development Corporation*, Legislative Reference Bureau, Report No. 2 Honolulu:1997.

2. *Ibid.*, pp. 49-56.

- (4) The Legislature consider directing the Attorney General and the Chairperson of BOA to determine whether the principal activities and roles of ADC, with respect to its projects and programs, may be creating potential financial liabilities for the State.
- (5) The Legislature consider clarifying: (a) the mission of ADC; (b) the means and the time within which ADC is to fulfill that mission; and (c) the individuals and entities who will exercise control over the mission of ADC.
- (6) The Legislature consider studying the comprehensive reorganization of all agriculture-related marketing and promotional activities and the management of state irrigation systems and agricultural parks, rather than the singular transfer of ADC to another state agency.
- (7) The Legislature commission an "independent" summative evaluation of ADC and determine, within two years, whether to continue funding ADC.

To this date, none of these recommendations were acted upon through legislation. In fact, the failure to act on recommendation no. 2 is the basis for Act 267 and this study. Many of the questions and concerns that prompted these recommendations remain, not only within the Legislature but within the agricultural industry, as exemplified in some of the comments the Bureau received in some of the responses to the Bureau's request for information sent to industry-related agencies and stakeholders. These concerns will be addressed in the summary discussion of these responses in the next chapter.

It should be noted that the Bureau's earlier report did close with the following caveat:

In all fairness to the ADC, it should be noted that the new Executive Director of the corporation, who was hired on September 2, 1997, has already begun to implement some of the recommendations contained in this report. For example, the ADC has developed a policy book to record, organize, and review all decisions made by the ADC Board of Directors with respect to specific projects and programs; and has developed systematic, written descriptions of all its ongoing projects and programs; has completed an outline of the Hawaii agribusiness plan; and has developed organizational procedures to systematically and clearly present specific matters and issues to, and obtain specific decisions and input from, the ADC Board of Directors. (cites omitted.)³

Present Operations and Activities of ADC

ADC was established as a public body corporate by Act 264, Session Laws of Hawaii 1994. ADC was placed in DOA for administrative purposes. ADC is headed by a board of directors, consisting of eleven voting members, of whom eight are appointed by the Governor,

3. *Ibid.*, p. 57. Further, the outline of the Hawaii agribusiness plan cited in the quotation is discussed further in this chapter.

"selected on the basis of their knowledge, experience, and proven expertise in small and large businesses within the agricultural industry, agricultural economics, banking, real estate, finance, promotion, marketing, and management."⁴ The Director of Business, Economic Development, and Tourism (DBEDT), the Chairperson of the Board of Agriculture, and the Chairperson of the Board of Land and Natural Resources, or their designated representatives, serving as ex officio members, comprise the remaining three voting members of the ADC board. (See Appendix E for a list of current members of the board.)

The board has appointed an Executive Director who serves as the administrative head of ADC.⁵ Assisting the Executive Director as his principal advisor is an Administrative Services Officer. Completing the ADC office staff is a Project Coordinator and secretary. In addition to the ADC office staff, ADC also employs a Water Systems Manager and Water Systems Office Manager both of who oversee all operations and work activities of the Waiahole water system which ADC purchased from Amfac, Inc. in 1999. Finally, ADC also employs four water system workers who are responsible for the operation, maintenance, and repair of all irrigation structures and facilities.

Before discussing the undertakings of ADC over the years, briefly, we should describe exactly what ADC has not done. In spite of its broad mandate,⁶ ADC has not:

- (1) Adopted any rules pursuant to Chapter 91, HRS;
- (2) Established any subsidiaries to undertake any specific project or program;
- (3) Carried out or contracted for surveys or research for marketing agricultural products in local, national, or international markets;
- (4) Established an agricultural loan program; or
- (5) Issued any revenue bonds.

A discussion of reasons ADC did not undertake some of these matters will be contained in Chapter 4.

Annual Reports to the Governor and Legislature

Section 163D-19, HRS, provides: "The corporation shall submit to the governor and the legislature, no later than twenty days prior to the convening of each regular session, a complete and detailed report of its plans and activities."

4. Section 163D-3(b), HRS.

5. Much of the background information relating to ADC was received directly from ADC. Additional information relating the undertakings of ADC over the years was also gleaned from the annual reports ADC submits to the Governor and the Legislature through the DOA.

6. See section 163D-4(a), HRS.

There are no ADC annual reports available until 1997. Early references to ADC in DOA annual reports are sparse. In its 1994 report, the Chairperson of BOA mentions in the Chairperson's opening statement: "The establishment of the Agribusiness Development Corporation is intended to coordinate the necessary partnerships to ensure a smoother transition [from plantation agriculture to diversified farming], and to build the agricultural industry into the flourishing economic component that it can be." The next reference to ADC is in an organizational chart contained in the annual report for fiscal years 1995-1997. While ADC is shown in the organizational chart, there is no mention in the annual report of any plans or activities of ADC for those years.

Annual Report and Progress Report, December, 1997. In December 1997, in response to House Concurrent Resolution No. 72, S.D. 1, ADC itself submitted an annual report and a draft of an outline of the Hawaii agribusiness plan. (See Appendix F.)

Tellingly, the first paragraph of the 1997 report states, in part: "The Agribusiness Development Corporation (ADC) internally reorganized during 1997 to become more project focused. It has also felt the need to formulate a process to define, prioritize and act on projects that can have significant impact for Hawaii's agricultural business."⁷ (Reference the language in that first sentence and the language in the caveat in the Bureau's 1997 Report, above.)

In an overview, ADC noted that in the 1990's with the sugar plantation closings, there were 94,000 acres less arable land committed to sugarcane. Further, nearly 200 million gallons per day of water became available. The 1997 report notes that the agricultural industry in Hawaii must be competitive in a global market and goes on to state: "To meet the challenges of globalization, Hawaii must seize this unprecedented opportunity to reinvent an agricultural industry empowered by farmers with an entrepreneurial market-driven philosophy."⁸ The report goes on to note that ADC's role is to "continue to complement the efforts of the DOA in offering a vehicle by which this transition can be accomplished."⁹

This 1997 annual report also contained the draft outline for the Hawaii Agribusiness Plan. This draft plan opens with the ADC mission statement, followed by a list of four objectives, each of which contain strategies and action plans. The initial mission statement of ADC is as follows:

The mission of the Agribusiness Development Corporation (ADC) is to provide leadership and advocacy for the conversion of agribusiness into a dynamic growth industry through the use of financial and other tools enabled by the founding legislation for the pursuit of specific projects to achieve the legislative objectives.

The objectives of the plan were as follows:

OBJECTIVE A. To facilitate in the orderly transition of existing agribusiness resources of land, water and infrastructure as they become available.

7. Agribusiness Development Corporation: Annual Report and Progress Report, December 1997, paragraph 1.0.

8. *Ibid.*, p. 2.

9. *Ibid.*

OBJECTIVE B. To focus on specific marketing analysis for ADC identified projects. To utilize marketing resources of related agencies to complement efforts. This will also include researching various transportation alternatives.

OBJECTIVE C. To provide the leadership for the development, financing, improvement, or enhancement of agribusiness enterprises.

OBJECTIVE D. To participate in county, state, and federal legislative initiatives to fulfill the purposes of the ADC.

The stated objectives come right out of the language of Chapter 163D. In like manner, each stated strategy contained in each objective is a direct derivative of the language in Chapter 163D. As stated above and further discussed hereunder, none of the objectives in the draft plan was later pursued by ADC other than objective A.

The draft agribusiness plan is followed by a list of the following projects:

- (1) Waiahole ditch;
- (2) Lower Hamakua ditch;
- (3) Waipio peninsula;
- (4) Freight consolidation and redistribution centers; and
- (5) Reparcelsation of agriculturally zoned lands.

With regard to the first two projects, ADC was in the discussion stage with other parties, including DOA. With regard to the Waipio peninsula, ADC apparently was actively pursuing a Rural Economic Transition Assistance-Hawaii (RETA-H) Program grant to undertake engineering and feasibility studies to convert former Oahu sugarcane lands into other agricultural enterprises. In the last two projects, ADC was contemplating its involvement.

Annual Report 1998.¹⁰ This annual report contained the most significant undertaking by ADC to date. In accordance with Act 111, Session Laws of Hawaii 1998, ADC completed the asset-purchase agreement with Waiahole Irrigation Company, Limited, a subsidiary of Amfac/JMB, for the acquisition of the Waiahole water system, including a twenty-five mile long system of hard rock tunnels, lined ditches, and wooden and metal siphons, along with related land parcels, delivering nonpotable water from windward Oahu to leeward Oahu. The amount of \$8,500,000, the negotiated purchase price was deposited into escrow. (This agreement was finally executed with the acquisition of the water system on July 9, 1999.)

10. The following ADC annual reports are contained as a last chapter in the DOA annual reports to the Governor and Legislature. A DOA report for the year 1999 was not available. The annual reports discuss the activities of ADC for the prior fiscal year. Major undertakings of ADC in the reporting period will be discussed in the body of this report. For further details of ADC activities, we have compiled the ADC portion of the DOA reports in Appendix G.

Also during this reporting period, ADC continued in its efforts to obtain the RETA-H grant for the Waipio peninsula project and submitted a request of another RETA-H grant to allow it to undertake the compilation of an inventory of Hawaii's land, soils, and water systems to be used as a marketing tool to publicize the availability of agricultural lands in Hawaii. (Section 163D-5(a)(1) and (2), HRS, required that the Hawaii agribusiness plan contain an inventory of agricultural lands and an inventory of agricultural infrastructure that will be available with the downsizing of the sugar industry.)

ADC also started preliminary investigations, along with the Agricultural Resource Management Division, DOA, into the possible lease and restoration of the lower Hamakua ditch on the island of Hawaii.

Annual Report 2000. During this reporting period, ADC continued in its efforts to close of the asset purchase agreement with Amfac/JMB. At the same time, it established an ad hoc committee to prepare a contingency plan for the continued operation of the Kekaha and Kokee ditch systems in anticipation that the sugar plantation would cease its operation and return vast acres of state land to the State.

ADC also started preliminary planning for a Hamakua agricultural subdivision.

Annual Report 2001. ADC reported on the completion of the purchase of the assets of the Waiahole Irrigation Company, Limited, and undertook the continued provision of irrigation water to central and leeward Oahu farmers without disruption. The newly named Waiahole Water System (WWS) provides irrigation for approximately 4,000 acres of land. ADC also undertook substantial maintenance and repair work on the WWS.

The other major undertaking of ADC during this reporting period was the apparent internal reorganization of ADC with the appointment of five new board of director members in September 1999, resulting in a new mission statement and goals. The new mission statement became:

The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.¹¹

Three goals were stated in this annual report:

- Utilize the unique powers of ADC to make land, water, and other resources available to viable agricultural endeavors.

11. This mission statement will undergo a slight change on August 30, 2006 to read: The Agribusiness Development Corporation (ADC) is a dynamic vehicle and process to create and to optimize agricultural assets throughout the state for the economic, environmental and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture with unique powers to assist agricultural business.

- Utilize the unique position of ADC to develop and nurture agricultural ventures and to privatize these ventures after their incubation period.
- Strive to invest in agricultural ventures with the greatest potential for self-sufficiency.

This restatement of goals appears to be a retreat from the objectives originally set forth in the 1997 report. The new goals limit the activities of ADC primarily to the first stated 1997 objective and do not specifically mention marketing, financing, and other activities that were earlier referred to in the 1997 objectives.

Annual Report 2002. The second major undertaking by ADC to date occurred during this reporting period. With the closing of all Amfac/JMB sugar operations on the island of Kauai, the State regained possession of 28,000 acres of land in the Mana plains area of Kekaha, previously leased to Amfac/JMB and in sugarcane production. ADC's immediate goal was to keep the land productive in agriculture and prevent flooding of the area since a good portion of the Mana plain, including the U.S. Navy's Pacific Missile Range Facility (PMRF), is at or below sea level. Along with the returned 28,000 acres of land came the Kokee ditch system, the Kekaha ditch system, two pump stations, two hydro-electric power plants, a complex irrigation/drainage ditch system, and many miles of electrical distribution lines.

Upon corraling all these assets and acting as the interim operator of the irrigation and drainage systems on March 1, 2001, ADC collaborated with a coalition of agricultural groups that eventually became tenants on the land engaging in various agricultural and aquacultural pursuits. (After ADC received control of 12,600 acres of these lands in September 16, 2003, through Executive Order 4007, ADC was able to enter into long-term agricultural leases with these tenants who eventually took over a substantial majority of the responsibilities of ADC in the operation of the irrigations and drainage systems in Kekaha.) ADC was also able to gain financial assistance in the form of a contract with the PMRF, providing the latter with assistance in operating the drainage system for the PMRF lands.

ADC continued to maintain the WWS, expending \$1,200,000 to replace some siphons, thereby recapturing 2,000,000 to 3,000,000 gpd of water that was being lost due to leakage.

During this reporting period, ADC developed a business plan for an experimental Hamakua agricultural subdivision. This plan included an analysis of the types of crops that would be suitable for the area and the marketability of the crops to be grown. In conjunction with Kamehameha Schools Bishop Estate (KSBE), a demonstration project was envisioned on a 110-acre site on KSBE lands in Hamakua.

Also during this reporting period, ADC acknowledged that it was required to produce the Hawaii agribusiness plan. However, due to a lack of resources, it was not able to meet this mandate. Instead, in the place of the Hawaii agribusiness plan, on March 2001, ADC submitted an Action Plan. (See Appendix H.)

ADC Action Plan. ADC stated in the Action Plan that it was intended "to provide 'aggressive and dynamic leadership' to respond to a constantly evolving industry. This type of

leadership requires a different planning paradigm; traditional plans tend to be inflexible and difficult to apply to changing circumstances. As a result, the ADC developed an action plan for agriculture on the basis of our overview of Hawaii's agricultural industry (see Appendix H)."¹² The appendix to the Action Plan was ADC's overview of the present state of Hawaii's agriculture. In its conclusion, it stated that the focus for Hawaii's farmers should be import replacement and export markets with high-value, high-quality export products. It noted that the major issues that needed to be addressed by the agricultural industry were:

- Resolving the freight and logistical issues that hinder the export business.
- Encouraging farmers to develop business and management skills to run their business.
- Encouraging partnership among farmers, with other private sector groups, as well as with the public sector, to gain cost efficiencies.
- Encouraging long-term agricultural leases.¹³

The Action Plan then stated that ADC would focus in the following areas:

- Assist in transforming available land into agriculture uses.
- Protect, maintain, and operate irrigations systems and infrastructure to ensure that a reliable and affordable water source is available to farmers.
- Provide assistance to solving distribution and transportation bottlenecks.
- Identify training needs and resources for farm workers and farm managers to upgrade our agricultural workforce.
- As an advocate for agriculture, educate the public and government entities about agriculture.

The Action Plan continued to provide a brief description of some of the major projects that ADC undertook to fulfill its stated mission.

Annual Report 2003. ADC reported on its continuing efforts to maintain and operate the WWS and the Kekaha agricultural lands.

Through Act 208, Session Laws of Hawaii 2001, ADC received an appropriation from the Legislature to assist with initial efforts associated in transitioning plantation lands in east Kauai to diversified agricultural activities, including a grant to the East Kauai Water Users' Cooperative for the operation and maintenance of the east Kauai irrigation system. Also with regard to irrigations systems, pursuant to Senate Concurrent Resolution No. 43, Regular Session

12. Appendix H, p. 1.

13. Appendix H, p. A-5.

2001, ADC was requested to conduct an assessment of the Molokai irrigation system and to recommend long-term solutions to the system's chronic water shortage problem. A report was submitted to the Legislature in December 2001. ADC is now the established "go-to" agency when it comes to large agricultural irrigations systems.

In other activities, ADC engaged in exploring the feasibility of setting up a consolidation, packing, and distribution facility for agricultural products on Oahu and, further, engaged in informal meetings with other agencies and groups to identify training needs for agricultural workers.

Annual Report 2004. At Kekaha, partially through U.S. Navy funding, ADC undertook a \$1,250,000 overhaul of the mauka Waimea hydroelectric power plant, making the Kekaha agricultural lands energy self-sufficient. Also on Kauai, ADC continued to provide funds and oversight for the operation and maintenance of the east Kauai irrigation system.

At Waiahole, water usage at the WWS increased by twenty-nine per cent due to increased planting of crops. This also allowed ADC to start making debt service payments for the general obligation bonds that were issued to purchase the WWS. Further, the state Commission on Water Resources Management (CWRM) ordered ADC to develop an assessment and plan and construct a diversion that would deliver 2,000,000 gpd from the Waiahole ditch tunnel system back into Waikane stream. ADC completed the diversion in November 2002. (Presently, the WWS is serving sixteen farm operations, as well as the Waiawa Correctional Facility, Mililani Golf Course, and Mililani Memorial Park and Mortuary. A complete list of water user served by WWS is contained in Appendix I.)

In other activities, ADC contracted with CTAHR to investigate the feasibility of the development of a tea industry centered on the island of Hawaii. ADC also continued its efforts with the Hamakua agricultural subdivision project and further, engaged in negotiations with the University of Hawaii to take over the operation of the Kauai tropical fruit disinfestation facility located near Lihue airport that the University owned. This is the only facility on Kauai capable of treating papaya for export to the mainland and is essential to ensure the long-term viability of the papaya industry on Kauai.

ADC noted that Act 47, Session Laws of Hawaii 2003, provided ADC with needed flexibility in managing public lands by exempting public lands set aside by the Governor to ADC or public lands leased by ADC from another department or agency from the provisions of Chapter 171, HRS, relating to public lands.

Annual Report 2005. After taking over the 12,600 acres of land at Kekaha, ADC honored existing tenants' revocable permits and organized a coalition of tenants, the Kekaha Agricultural Association, to manage common infrastructure, including the Waimea and Kokee irrigation systems, the extensive drainage system with two pump stations, the electrical system with two hydroelectric plants, and the roadways in the area. Additional work in upgrading the drainage system, including replacing six drainage pumps, was also done with funds from the U.S. Navy contracts. (A complete list of Kekaha agricultural land tenants and water users is contained in Appendix I.)

AGRIBUSINESS DEVELOPMENT CORPORATION

Other continuing activities included the operation of the WWS, the Hamakua agricultural subdivision project, and the Kauai tropical fruit disinfestation facility takeover.

Annual Report 2006. With U.S. Navy financial backing to the tune of \$4,460,000, ADC completed an overhaul of the drainage system at Kekaha, including repair or replacement of six drainage pumps, dredging of drainage canals and improvements to flood control gates, repair and upgrading of the hydroelectric plants, and improvement to access roads. Final long-term leases were entered into with six agricultural, primarily seed-growing operations and one aquaculture operation, and two nonagricultural tenants. Rental rates were set by independent appraisal, with rents being discounted by a maintenance credit for the maintaining and operating of all the irrigations, drainage, and electrical equipment and systems by the tenants.

Also on Kauai, ADC continued to assist the users of the east Kauai irrigation system in the operation and maintenance of the system. ADC was also approached by DLNR to take over the irrigation system, along with approximately 7,000 acres of state-owned agricultural lands in the Kalepa area. This offer was approved by the ADC board of directors at its February 18, 2005, meeting and the details leading to another executive order transferring the jurisdiction over the Kalepa lands were being resolved.

ADC continued its maintenance and operation of the WWS, with its main concern over the period with stopping or reducing water losses in the system.

ADC continued to be involved in the other projects reported previously, including the development of a tea industry, the Kauai tropical fruit disinfestation plant, and the Hamakua agricultural subdivision project.

Two new potential projects that recognized ADC's expertise in water system management were the Oahu North Shore Ag Coalition project and a project on former sugarcane lands in Kau on the island of Hawaii. While the 40,000 acres on the North Shore are private, ADC is willing and ready to extend its water system management expertise to the coalition. Similar with Waiahole, Kekaha, and Kalepa, the Kau project involves large tracts of former sugarcane lands served by several irrigation systems, some portions of which are on state lands.

Summary

While there are some other projects ADC is undertaking, there is no question that the vast majority of its time, energy, and resources are being spent on water system management projects. The WWS, Kekaha, and east Kauai irrigation system/Kalepa projects all involve former sugarcane lands that have been or are in the process of being converted into diversified agriculture, along with extensive irrigation systems. The ADC future holds further involvement in the North Shore Coalition project and the Kau project, again both involving former sugarcane lands blessed with extensive irrigation systems. This was the primary mandate of ADC twelve years ago, facilitating the conversion of vacated sugarcane and pineapple plantations lands and the infrastructure serving these lands into diversified, multi-crop agricultural industries. These primary efforts were supplemented with efforts to start up new crops (Hamakua project and the tea industry) and assist in the marketing of other crops (Kauai papaya).

Chapter 4

GOVERNMENT AGENCIES AND STAKEHOLDERS IN THE AGRICULTURAL INDUSTRY

Responses from Government Agencies and Stakeholders

Act 267, Session Laws of Hawaii 2006, directed the Bureau to identify and consult with government agencies and stakeholders in the agricultural industry in order to identify the necessary elements that should be included in the agribusiness plan and to obtain suggestions to improve the Agribusiness Development Corporation (ADC). A total of fifty-four agencies, organizations, and individuals were identified and sent surveys. In addition to the obvious government agencies, other organizations and individuals were identified by their interest in testifying on the bill (and other related bills) that became Act 267. Additional parties were added at the suggestion of ADC Executive Director Alfredo Lee. (These fifty-four recipients are listed in Appendix B.)

Of those surveyed, only fifteen responded. The fifteen respondents included four state agencies (Department of Agriculture (DOA), DOA's Agricultural Loan Division, the Department of Business, Economic Development, and Tourism (DBEDT), and the College of Tropical Agriculture and Human Resources (CTAHR)), seven agricultural associations (Hawaii Farm Bureau Federation (HFBB), Maui County Farm Bureau (MCFB), Hawaii Agriculture Research Center (HARC), Land Use Research Foundation (LURF), Hawaiian Commercial & Sugar Company (HC&S), Waimanalo Agricultural Association, and Hawaii Cattlemen's Council, Inc.), and four individuals (including two members of the Board of Directors of ADC). (The responses are contained in Appendix D.)

The fifteen responses were surprising in their relative similarity in content. Generally the following themes were contained in the responses:

With regard to the question requesting identification of elements that should be included in the agribusiness plan, the common comments were:

- There is no need for a further study; just implement existing studies
- The elements of the agribusiness plan are already set forth in section 163D-5(a), HRS
- The role of ADC should be redefined so as to not overlap with the roles being played by other agencies and organizations

With regard to the question requesting ways to improve ADC, the common comments were:

- Provide ADC with more funding and resources

- Establish performance standards for ADC's Board of Directors and staff
- ADC should establish standards or milestones for each separate project it undertakes with which it can oversee and determine whether a project is successful
- Remove DOA's oversight of ADC programs and projects
- Restore ADC's procurement code exemption

No Further Study Needed; Implementation Needed

Perhaps the most emphatic comment in this regard came from Ms. Stephanie Whalen, President and Director of HARC:

With respect to the preparation of a Hawaii agribusiness plan I would like to bring to your attention if you haven't already discovered it that there have been at least 8 such plans without implementation since 1966. These were either called State Agricultural Plans or State Agricultural Functional Plans or similar titles. None of these plans have been implemented nor is there much difference among them. The issues have been recognized for decades; solutions have been suggested; little implementation has occurred.

Ms. Whalen goes on to note, as do other respondents, that "The Hawaii Farm Bureau Federation, an organization representing the farming community, has the most recently developed A Strategic Plan for Hawaii's Agriculture.... As all the state plans before it, it identifies what needs to be done. What is needed is for all the support organizations to work with this 'plan' and develop and support action items within their expertise for implementation." Further in her response she states: "If the goal of this is to support agricultural (sic), then another plan is not needed. What is needed is a recognition that the necessary elements have been identified over and over again in the past 4 decades in at least 9 plans already."

In a similar note, Ms. Teena Rasmussen, Chairperson of ADC states: "The Hawaii Farm Bureau Federation completed a very comprehensive plan titled 'Strategic Plan for Hawaii's Agriculture.'...We urge the LRB to look at these plans and studies in detail, and avoid a duplication of effort." Also the Maui County Farm Bureau stated: "The Hawaii Farm Bureau Federation has prepared and regularly updates a Strategic Vision and Implementation Actions for Agriculture in Hawaii. ...We strongly recommend that this Vision and Plan be used as the basis a (sic) Hawaii Agribusiness Plan. Duplication of effort is counterproductive. Rather, time would be better spent further developing the implementation actions."

Similarly, HFBF notes: "ADC should expound on the existing general agricultural plans and move into the implementation state with annual review of performance and measurement standards." Further in its response, HFBF states: "The Bureau should use existing agricultural plans such as the Farm Bureaus' (sic) strategic plan and the DOA's general agricultural plan. This will reduce duplication of resources and efforts to start a whole new plan. At this point, we

should be updating or implementing sections within these plans." Finally, HC&S states: "Preparing a new Plan may not be needed ... rather implementation of an existing plan."

Due to the prominence with which the HFBB's plan is mentioned in many responses, a quick review of that plan is warranted. The plan opens with an introduction and vision followed by a stated purpose.

The purpose of this plan is to evaluate the production, financial, marketing, and distribution problems and opportunities facing Hawaii's agriculture. The plan provides a roadmap to formulate a strategy to address issues hindering Hawaii's agriculture and to fully realize its potential. By identifying each issue, attention can be focused on reaching new or different solutions. This third version begins to identify some of the actions that have taken place and sets into the implementation phase of the Plan.

Private sector motivation must be the driver to move these goals and objectives forward. Agriculture should not rely on government or others to determine its future. Government's role must be limited to providing the political, regulatory, and infrastructural support needed to enhance agriculture.

The plan then goes forth to identify the major issues facing the agricultural industry in the State: land, water, environment and food safety, research and development, marketing and competitiveness, transportation, taxation and fees, and farm management and labor. Each issue is then defined and broken into sub-issues. These sub-issues are followed by proposed actions for the resolution to these issues. Finally, the plan contains a recitation of actions that have been taken to date by government or stakeholders in the industry to resolve some of these issues. (A copy of HFBB's "A Strategic Plan for Hawaii's Agriculture" is contained in Appendix J.)

Section 163D-5(a), Hawaii Revised Statutes

In their responses to the question as to the elements that should be included in the agribusiness plan, DOA, CTAHR, HFBB, and two individuals refer back to section 163D-5(a), Hawaii Revised Statutes (HRS), and the nine numbered paragraphs in the subsection as the elements for the agribusiness plan. In fact, DOA and Messrs. Robert Cooper (ADC board member) and Robert Sutherland all recite the nine paragraphs in subsection 163D-5(a) verbatim in their responses.

DOA first notes that many of the elements of the agribusiness plan, "as outlined in Chapter 163D-5," have been or are being addressed currently by DOA, along with ADC, HFBB, HARC, and CTAHR. It further states that many of the elements of the agribusiness plan are addressed in the HFBB's strategic plan. DOA's response then goes on to set forth the language in the nine numbered paragraphs in section 163D-5(a), then responses to each. With regard to paragraph (1) calling for an inventory of agricultural lands, DOA states that Act 183, Session Laws of Hawaii 2005, relating to important agricultural lands, requires the counties to identify and map agricultural lands. While ADC is participating with DOA in the process, the primary responsibility for this inventory lies with the counties and the Land Use Commission.

GOVERNMENT AGENCIES AND STAKEHOLDERS IN THE AGRICULTURAL INDUSTRY

Paragraph (2) calls for an inventory of agricultural infrastructure and DOA responds that its own Agricultural Resource Management Division has completed parts I and II and is working on part III of the Agricultural Water Use and Development Plan (AWUDP). This plan identifies and describes many of the major irrigation systems statewide, including both private and public systems. It further projects future irrigation water needs and proposed water sources to meet those projected needs. DOA states "ADC should focus on the infrastructure associated with ADC's high priority projects and criteria to select projects for infrastructure that will be identified through the AWUDP."

Paragraph (3) calls for an analysis of imported agricultural products and the potential for increasing local production to replace those imported products. DOA responds that its own Agricultural Development Division already provides statistics on the production of a variety of crops in the State, along with pricing information for use by the industry. It further noted that CTAHR did a similar study in 1993 and, if anything, CTAHR, rather than ADC, should be funded to conduct an industry analysis to identify potential products for our agricultural industry and what would be needed to produce those new identified products.

Paragraph (4) calls for alternatives in the establishment of sound financial programs to promote diversified agriculture. DOA notes that its own Agricultural Loan Division (ALD) has done significant outreach work with various agribusinesses and financial institutions. With loan limits of up to \$800,000, ALD can meet most of Hawaii's farmers' needs. DOA notes: "Rather than divert ADC's present focus and duplicate other successful efforts, we believe that this element should not be included in the HAP (Hawaii agribusiness plan). Rather, ADC could serve a better role by networking with ALP (sic) and the financial services providers and making their products known to ADC's own clients."

Paragraph (5) calls for feasible strategies for the promotion, marketing, and distribution of Hawaii agricultural products in local, national, and international markets. DOA responds that its own Agricultural Development Division (ADD) has been promoting and marketing Hawaii's agricultural products for years. "ADD rather than ADC is in the best position to lead the effort to expand markets for Hawaii agriculture."

Paragraph (6) calls for programs to absorb displaced agricultural workers; however, DOA notes that there is a shortage of agricultural workers that has led some diversified agricultural operations to import foreign agricultural workers.

Paragraph (7) calls for strategies to ensure the provision of adequate transportation facilities and services to support the agricultural industry. DOA's response: "HDOA (DOA), Department of Transportation, Hawaii Farm Bureau, and the Department of Commerce and Consumer Affairs are working together in issues relating to transportation along with the Superferry and Young Brothers."

Paragraph (8) calls for proposals to improve the gathering of data on market demands and trends. DOA states that it is the responsibility of its own ADD and the National Agricultural Statistics Services to collect and provide useful information to the agricultural industry.

Finally, paragraph (9) calls for strategies for federal and state legislative action to promote Hawaii's agricultural industry. DOA notes that ADC is regularly asked for and provides comments on proposed federal and state legislation and should continue to do so.

In similar fashion, CTAHR refers back to the same section 163D-5, HRS, in stating: "The Agribusiness Plan developed in 1994 is obsolete. I see little to be gained by trying to have ADC fit into the nine elements of the Plan."

Redefining the Role of ADC

To varying degrees, all respondents called for a redefining of the role of ADC. Generally, the role of ADC as set forth in Chapter 163D, HRS, and specifically in section 163D-5 was to be all things to all parties in the Hawaii agricultural industry, although its primary purpose, as set forth in section 163D-1, was to be the principal party in the transition of Hawaii agriculture from a two-crop plantation industry to a multi-crop diversified agricultural industry and to be "a public corporation to administer an aggressive and dynamic agribusiness development program." Most respondents familiar with the past and present operations of ADC (as described in Chapter 3) appear to feel that ADC's role should be limited to the transitional vehicle role set forth in section 163D-1.

DOA states:

ADC has and should continue to focus primarily on the preservation of agricultural infrastructure abandoned by former plantations and the continuation of large tracts of former plantation land in active agriculture. As agriculture transitions, management of those lands must adapt to fit the new crops, scale and types of agribusinesses farming it.

ADC provides the means to transition what used to be a single operation under corporate control to the management and coordination of many individual farming operations all dependent on shared infrastructure.

In his response to the Bureau's letter, Mr. Ted Liu, Director of Business, Economic Development, and Tourism and an ex officio member of the ADC board of directors, comments on the role of ADC as follows:

In my view, the roles and responsibilities of ADC and the DOA need to be more clearly delineated. Although "the ADC is mandated to administer an aggressive and dynamic agribusiness development program...(including) marketing analysis (and) leadership for the development of agricultural enterprises," the DOA also has similar responsibilities and is the lead state agency in these areas. The ADC has limited staffing and, it seems, as currently structured would not be able to adequately fulfill this mission.

CTAHR, in like manner with other respondents, feels that ADC's role should be a reduced one, focusing on the transition from plantations operations into other agricultural operations:

GOVERNMENT AGENCIES AND STAKEHOLDERS IN THE AGRICULTURAL INDUSTRY

The mission of ADC should be focused on item 1 of its stated mission, "Assist agricultural enterprises to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises." They should be focused on managing large tracks of land and the irrigation and related infrastructure to support agricultural enterprises on these lands. They are already doing this at Kekaha on Kauai, and should expand to other locations in the state.

HFBF in its response states: "Our understanding or perception as to the role of the ADC is [to] assist in the transition from plantation agriculture to diversified agriculture.... ADC's main function or role is to assist in the re-development of land and water infrastructure for diversified agriculture."

Maui County Farm Bureau's overview of the relative roles of the various agencies and organizations in the agricultural industry is as follows:

In summary, we see ADC being the leader for land and water, CTAHR for research and development, HDOA for regulatory and marketing functions associated with government and HFBF and Commodity organizations for bringing farmers and ranchers together and to serve as the conduit of information between parties as well as work within the legislative process both locally and nationally.

Land Use Research Foundation (LURF) states that "ADC's primary objective is to assist in the transition to agribusinesses that are 'economically viable.' It was to use its authority and powers to transition agribusinesses in Hawaii from mono-crop plantations to more diversified agribusinesses."

HARC also similarly finds:

ADC's niche has evolved into the management of large scale water systems and the public and private lands associated with them. The systems were once handled by private entities having a self interest in maintaining them for their businesses. As these water systems are orphaned by departing large scale agricultural enterprises and by the remnant land owners there is an urgent need for an organization to step in and manage these systems for multiple smaller and diversified agricultural users. ADC stepped into this role and is evolving the expertise to manage these diverse and complex systems, each one unique to itself.... This is the perfect role for ADC which it has embraced.

Ms. Rasmussen, ADC Chairperson, also feels that the role in which ADC now finds itself is the appropriate one:

One of the main missions of ADC when it was established was to assist agricultural enterprise to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises. This is what ADC has done and has done well. From the Waiahole ditch system, to the state lands left vacant by Gay and Robinson sugar company in Kekaha, Kauai to the potential new projects of managing the entire Waihawa (sic) ditch system on Oahu, Kau water on the Big Island, and the East Kauai Irrigation System, ADC has been able to save the water systems and put farmers on the land. This is the forte' of ADC-managing water systems and ag land.

Ms. Rasmussen goes on to state that ADC should not be involved in assisting farmers with marketing efforts, assisting farmers with financial programs, or assisting former sugar workers in transitioning to work on other farms.

ADC Funding and Resources

While this study did not entail providing a detailed analysis of the annual appropriations granted to ADC by the Legislature, virtually all respondents urged that ADC be provided with more funding to afford it the resources to continue and expand its efforts. It should be noted that these are many of the same voices that have called for a redefining and possible reduction in the role ADC plays within the industry.

At its inception, it was envisioned that ADC would be a much larger, robust organization. According to DOA, ADC was to be staffed with a total of eight persons, including managers, program specialists, and clerical support. Presently, the office staff of ADC is comprised of three persons: an executive director, an administrative services officer, and a secretary. Additionally, when it acquired the Waiahole water system in 1999, ADC "inherited" seven employees who were working for the prior owner of the Waiahole water system. These seven positions included managers, supervisors, and system workers.¹

DOA, DBEDT, CTAHR, HFBF, HC&S, and three individual respondents all called for more funding for ADC to allow it more resources to pursue its mandate, even though it may become a more limited or focused one. DOA, while calling for ADC to focus primarily on the preservation of agricultural infrastructure abandoned by former plantations, states: "It is evident that ADC is understaffed." CTAHR, while stating that the mission of ADC should be focused on managing large tracts of land and the irrigation and related infrastructure to support agricultural enterprises on those lands, comments: "Even with a more focused mission, ADC is still understaffed and additional staffing is needed."

Ms. Rasmussen acknowledges ADC's more focused role in managing water systems and agricultural lands dependent on those water systems, noting that ADC is operating the Waiahole water system and Mana water system and may get involved in the Wahiawa, Kau, and East Kauai water systems. Nevertheless, she states that ADC needs:

The ability and resources to hire project managers to focus on the huge projects listed above. ADC has only three positions, an executive director, an administrative services officer, and a secretary. The current work load of the staff is beyond capacity, and more projects are being proposed. ADC will have to turn away these projects unless we get approval for more positions-particularly project managers.

1. In contrast, when ADC took over the public lands and irrigation system (including two hydroelectric plants) at Mana, Kauai, after Amfac/JMB shut down its sugar operations, rather than inheriting workers, ADC initially contracted out the work to operate and maintain the irrigation system, hydroelectric plants, drainage system and roads. It then contracted with some of its existing tenants to take over the operations in exchange for reduced lease rents. These are now the responsibility of a tenants' cooperative that was since created.

While we earlier noted that this study does not contain a detailed analysis of the annual legislative appropriations to an annual budget of ADC, in light of the collective call to increase funding to ADC by many respondents, including the ADC chairperson, it must be noted that over the four fiscal years ending June 30, 2005, ADC has had relatively substantial carry-over budget balances, as follows:

2001-2002	\$773,118
2002-2003	745,592
2003-2004	827,918
2004-2005	897,924 ²

Executive Director Lee noted that he believed that, in fiscal year 2000-2001, ADC received an appropriation of \$200,000 for the Hamakua agricultural subdivision project. That appropriation was not expended, although half of the appropriation was used in the Hawaii tea project. The remaining half of the Hamakua appropriation remains in ADC's coffers. Lee further noted that, for the last year, he has been trying to hire a person to fill a newly created project administrator position. To date, has been stymied by the state civil service laws and requirements. However, there still remain questions relating to these carry-over balances.

Performance Standards

One of the criticisms of ADC from its inception was the lack of written plans and standards for measuring the success or failure of a project or program. Recommendation 3 of the Bureau's earlier 1997 study was "to require ADC to prepare the kinds of written plans that will enable the ADC Board of Directors to monitor the status and evaluate the progress of any project or program, to approve or disapprove any project or program activity, to replicate any project or program at another place or time, and to advance any ongoing project or program to the next step, in the event that key professional staff leave the corporation."³

Several respondents indicate that the establishment of written plans and standards should be extended not just to evaluate projects and programs but also to impose standards and qualifications for all staff positions for the proper evaluation of personnel. Relating to project or program measurability, LURF comments:

The reporting mechanism between ADC, ADC Board, and the Legislature needs to be improved. Defining roles and responsibilities, oversight, and accountability all need to be done as soon as possible. Progress then can be tracked and reported. To the extent

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2. ADC's annual budget summary referred to as the Agribusiness Development Revolving Fund, along with a summary of the Waiahole Water System Revolving Fund established pursuant to section 163D-15.5, HRS, for the operations and maintenance of that system, are found in Appendix K.
 3. Keith H. Fukumoto, *Plan(ning) Is Not a Four-Letter Word: A Formative Evaluation of the Agribusiness Development Corporation*, Legislative Reference Bureau, Report No. 2 Honolulu:1997, p. 50.

possible, these reporting mechanisms should be transparent and built into the programs or projects through establishing measurable performance standards or milestones for the program or project. Progress can then be tracked as each project or program provides status reports.

With regard to the organization's accountability, LURF comments:

The existing statute (sic) lists the qualifications of the 11 ADC Board members, and allows them to select the Executive Director. Given the fact that the Hawaii Agribusiness Plan, although required in the enabling legislation, was never completed, we would suggest that the study also look at establishing milestones, reporting mechanisms, or performance standards for both the Board and ADC staff that would ensure proper legislative oversight in implementing the policies in the enabling legislation.

HC&S notes:

Funding to provide for good leadership and staffing of the organization is critical. Realistic timelines for accomplishing measures along with support from related agencies and organizations will improve ADC. A process of accountability to the Legislature, regular review of the Plan to ensure its relevance and assurance of long term support is also essential.

DOA Oversight of ADC Programs and Projects

Pursuant to section 163D-3, HRS, ADC was established as "a public corporate body and politic and an instrumentality and agency of the State" and was placed in DOA for administrative purposes. That made ADC subject to the requirements of section 26-35, HRS, requiring, among other things, that ADC:

- (1) Communicate with the Governor and the Legislature only through the Chairperson of BOA;
- (2) Have its financial requirements submitted by the Chairperson of BOA; and
- (3) Have all its staffing, employment and job descriptions of its officers and employees and physical logistical support subject to the approval of the Chairperson of BOA.

To further bring ADC under the direct oversight of DOA, section 163D-8.5, HRS, provides: "All agricultural projects, agricultural development plans, and project facility programs developed by the corporation must be approved by the board of agriculture before implementation."

Almost half of the respondents contend that ADC needs more autonomy and to be removed from under the direct oversight of DOA. In that regard CTAHR commented as follows:

Some thought should be given to the relationship of ADC to the Department of Agriculture. Should it function as a division of the DOA, an autonomous agency, or something in between? I see a real need for an agency that can move quickly without the constraints of the state bureaucracy.

In like manner HFBF felt "ADC was formed to be a public/private organization that has the ability to bypass many of the "bureaucratic red tape" that often slows down government. ADC was modeled after HCDCH and other semi-autonomous government entities to move and procure projects more aggressively and at a more efficient rate."

MCFB was blunter, stating: "The initial intent of an independent ADC, separate from existing agencies must be implemented to allow timely action by the Corporation." Similarly, although slightly mistaken in its reading of the original statute creating ADC, LURF states "Implicit in the statutory language is the need for ADC to act independently. It established no formal relationships with existing government agencies; however, the focus on outcomes requires ADC to work with existing government agencies to achieve the desired results."

HC&S also states "ADC was designed to operate OUTSIDE of the traditional government process.... While collaborating with the HDOA and other government agencies, ADC was not meant (sic) be a part of a Department. This would place it within the bureaucratic system resulting in procedural delays in direct conflict with the original intent of the organization."

Joining in this chorus, and quite understandably, is ADC Chairperson Rasmussen:

ADC has a very competent and hard-working board. It is not uncommon for board members to attend three meetings per month. I believe that the requirement that ADC projects to (sic) ALSO be approved by the Board of Agriculture should be eliminated. This is redundant, and an overlap of effort that is not necessary.⁴

Fellow ADC board member Robert E. Cooper agrees, stating "We could streamline our work by allowing our board of directors to approve projects without further approval required."

Perhaps also understandably, DOA is silent on this point.

Hawaii Procurement Code Exemption

As it was earlier described in Chapter 2, at its inception in 1994, ADC was granted an exemption from Chapter 103D, HRS, the Hawaii Procurement Code; however, the exemption was repealed in 2004.

Four agency and industry organizations and both responding board members of ADC urge the reinstatement of the ADC Hawaii Procurement Code exemption. DOA comments:

4. The qualifications for members of the Board of Directors of ADC were set forth in Chapter 3.

AGRIBUSINESS DEVELOPMENT CORPORATION: REVISITED

After losing its procurement exemption pursuant to Act 216, SLH 2004, ADC has struggled to efficiently execute its contracts like its private sector partners. ADC recognizes the need to conduct its business transparently and the intent of Act 216 to ensure that business practices are ethical and lawful. However, if ADC is to be the rapid reaction force for state government to handle transitions as it was intended to be, the ability to move as quickly as the private sector is critical. The legislature should consider restoring ADC's procurement exemption status.

CTAHR notes "Finally, they (ADC) need the procurement exemption originally granted to them to enact transactions in a timely manner." HFBF joins in stating "ADC should be exempt from the procurement code. It is our understanding that this exemption was removed several years ago. In order to quickly act on priority projects or hire contractors, ADC needs to be exempt from procurement."

Again understandably, both ADC chairperson Rasmussen and board member Cooper urge the restoration of the procurement code exemption. Chairperson Rasmussen states:

Our procurement exemption status needs to be restored by the legislature. Since this exemption was taken away by Act 216, SLH 2004 ADC has been severely crippled in being able to rapidly respond to water system emergencies brought on by storms and flooding etc. If we are going to do the job the way it needs to be done-ADC needs to have the ability to hire contractors in a quick and decisive manner.

In response to a request for a direct comment, ADC Executive Director Lee provided a lengthy comment on the procurement code exemption and what it means to the smooth running operations of ADC. His response is provided here in its entirety:

The procurement exemption allowed ADC to act rapidly under time constrain (sic). There were two instances where ADC's procurement exemption came in handy. On either occasion, ADC would not have been able to justify using "emergency" procurement procedures.

- In its Waiahole Combined Contested Case Decision and Order of December 28, 2001, the Commission on Water Resources Management directed ADC to divert additional water into Waikane Stream on the windward side of Oahu. ADC was given 3 months to come up with the design and 3 months to do the construction of the outlet from the transmission tunnel. ADC used its exemption to select a consulting firm to design the outlet, which came in on time. ADC also used its exemption to select a contractor that we knew could do the work expediently. As a result, ADC finished the entire project in 7 months, a record time. We also came in under budget. We could have done better if not for rain delay. Without procurement exemption, it would have taken ADC at least 12 to 15 months to get this work done.
- Another time was during the closure of the Kekaha plantation on Kauai in 2001. When the former Kekaha Sugar plantation land reverted back to the state (DLNR), it was decided that ADC would take care of the transition. This came with very short notice. With procurement exemption, ADC was able to contract a consultant in place within a month to coordinate all activities relating to the operation and maintenance

GOVERNMENT AGENCIES AND STAKEHOLDERS IN THE AGRICULTURAL INDUSTRY

of the 12,500 acre property and its related infrastructure (irrigation ditches, hydro electric plants, pumping stations, roads, etc.).

Act 216, SLH 2004 removed ADC's exemption from the Hawaii Procurement Code. The following is an example of a time when we really would have benefited from having the procurement exemption:

- In September 2005, the U.S. Navy awarded ADC a contract to operate and maintain the dewatering pump stations near the Pacific Missile Range Facility and to maintain the related drainage canals. ADC did its best and was not able to contract the work out to a sub-contractor until January 2006, almost 4 months after the federal contract was issued to us. With procurement exemption, we were certain that we could have [had] a sub-contractor in place in about half of the time.

Chapter 5

FINDINGS AND RECOMMENDATIONS

Based upon the past and present projects and programs in which the Agribusiness Development Corporation (ADC) has been and continues to be involved in, as described in Chapter 3, and the responses of the public agencies, organizations, and stakeholders in the agricultural industry in the State to the Bureau's request for comments regarding ADC, as described in Chapter 4, the Bureau arrives at the following findings, followed by three proposed recommendations.

Findings

- The majority of respondents to the Bureau's letter for comments are of the opinion that the Hawaii agribusiness plan required by section 163D-5, HRS, is unnecessary in view of the fact that over the decades there have been at least eight agricultural plans put forward, including the state agricultural functional plan, codified in part in section 226-7, HRS, and the latest being the comprehensive plan developed and continuously updated as the Hawaii Farm Bureau Federation's "A Strategic Plan for Hawaii's Agriculture." These respondents uniformly called for the implementation of the existing plans rather than the development of a new plan or reformulation of past plans.
- A number of respondents, including the Department of Agriculture (DOA), College of Tropical Agriculture and Human Resources (CTAHR), Hawaii Farm Bureau Federation (HFBBF), and several individuals, appeared to assume that the elements of the Hawaii agribusiness plan that the Bureau was asked to identify were already set forth in section 163D-5(a), HRS, and some of the respondents, particularly DOA, stated that many of the functions contained in that section were already being handled by the various DOA divisions and other agencies and organizations.¹ The strong implication was that mandating ADC to also assume these responsibilities was a duplication of effort.
- ADC has, since its creation, evolved into an agency that is principally involved in taking over the infrastructure and operations of agricultural infrastructure, primarily irrigation systems, from prior abandoned plantation operations. To the extent necessary, it has repaired and restored these water systems and infrastructure and now operates them for the benefit of adjoining public agricultural lands that ADC leases to tenant farmers (Kekaha and the proposed east Kauai water system) or adjoining private landowners and tenants that ADC sells water rights to (Waiahole water system). This was one of the immediate purposes that the Legislature envisioned for

1. Indeed the statute states in part that the "plan shall include but not be limited to:" and goes on to enumerate nine specific elements. Section 163D-5(a), Hawaii Revised Statutes.

FINDINGS AND RECOMMENDATIONS

ADC in section 163D-1, HRS. As discussed in the immediate prior finding and as acknowledged by ADC, many of the functions envisioned for ADC, particularly as set forth in section 163D-5, HRS, are not being undertaken by ADC, but are being done by some of the divisions of DOA and other organizations. Briefly, ADC:

- (1) Has not established an agricultural loan program; DOA's Agricultural Loan Division maintains an agricultural loan program;
 - (2) Has not carried out or contracted for surveys or research for marketing agricultural products in local, national, or international markets; DOA's Agricultural Development Division has been handling this task, although according to DOA, recent funding and staff cuts have hindered this effort;
 - (3) Has not conducted any analysis of imported agricultural products and determined whether local production could replace imports; DOA reports that CTAHR has done this analysis and should update it;
 - (4) Has not requested authorization for or issued any revenue bonds for the development of project facilities;
 - (5) Has not utilized the Hawaii agricultural development revolving fund, established pursuant to section 163D-17, HRS, to purchase qualified securities issued by enterprises for the purposes of raising seed capital or to make grants or loans to such enterprises;
 - (6) Has not gathered and provided timely presentations of data on market demands and trends to be used to plan future harvests and production; DOA states that its Agricultural Development Division and the National Agricultural Statistics Services serve this function; and
 - (7) Has provided a grant on one occasion for the development of a tea industry on the island of Hawaii.
- Many respondents to the Bureau's letter voiced their opinion that, even in the more limited role that ADC has undertaken; *i.e.*, operating water systems and lands dependent on the systems for irrigation, ADC is sorely under funded and requires substantially more funding and staffing to carry out even this limited role.
 - ADC has been criticized for the lack of formally adopted written plans and standards for monitoring and measuring the success or failure of a project or program. A number of respondents felt these standards and monitoring measures should be formally adopted. For further transparency, some respondents urged that standards and qualifications for all staff positions be formally adopted for the proper evaluation of personnel.

- A number of respondents to the Bureau's letter felt that it was the initial stated intent of the Legislature that ADC was to be "a public corporation to administer an aggressive and dynamic agribusiness development program."² To many industry stakeholders, this meant that ADC was not to be like other state agencies, tied down in bureaucratic government red tape, but was to act as an independent agent that was able to move in immediate reaction to the need of the state agricultural industry. Some respondents pointed to the quality and dedication of the members of the ADC board of directors. These comments resulted in many respondents recommending that ADC be removed from under the control of the Board of Agriculture (BOA) and not be subject to the approval of BOA for every program or project it undertakes, as is now required in accordance with section 163D-8.5, HRS.
- Finally, at its inception, ADC was granted an exemption from the Hawaii Procurement Code. This was also to allow ADC to respond immediately to needs in the private sector. This need to be able to immediately react is especially evident with the need to protect and repair agricultural infrastructure in the event of disastrous weather events. Accordingly, many respondents urged that ADC be granted back its exemption from the Hawaii Procurement Code.

Recommendation No. 1

As important as the functions being performed by the ADC may be, they are considerably more limited than the Legislature's initial vision for the agency as described in Chapter 163D, Hawaii Revised Statutes (HRS). The Legislature therefore needs to decide whether the ADC:

- (1) Should be the all-expansive entity originally foreseen; or
- (2) Be refocused to a less expansive level, possibly just to encompass the projects and programs that have engaged and continue to engage its time, resources, and energy.

Once the desired range and scope of functions are determined, the Legislature should direct the Governor to report to the Legislature on the staffing, funding, and resources necessary to implement the Legislature's vision, and how much of that staffing, funding, and resourcing can reasonably be accomplished through transfers within the executive branch of government.

As part of this report, the Governor should also be directed to make recommendations concerning:

- (1) Whether the ADC's authority to issue revenue bonds should be continued, and if so, whether the possible uses of the proceeds of the bond issues should be limited or otherwise modified;

2. Section 163D-1, Hawaii Revised Statutes.

FINDINGS AND RECOMMENDATIONS

- (2) Whether the Hawaii agricultural development revolving fund should be terminated or transferred to a different agency;
- (3) Whether revolving funds (akin to the Waiahole water system revolving fund) should be established for the Kekaha water system and other specific projects undertaken by the ADC; and
- (4) Performance standards to be implemented by the ADC to monitor and evaluate the progress and success of its projects, programs, officers, and employees.

Recommendation No. 2

If ADC remains an entity with a mission similar to the one in which it is presently engaged, the oversight role of DOA and BOA should be removed through the repeal of section 163D-8.5, HRS. Section 163D-3(b), HRS, requires the board of directors of ADC to have eight private individuals representing the various counties and "selected on the basis of their knowledge, experience, and proven expertise in small and large businesses within the agricultural industry, agricultural economics, banking, real estate, finance, promotion, marketing, and management." In like manner, section 26-16, HRS, also requires a geographically represented BOA; however, the qualifications of BOA members are described more generally: "The majority of the members of the board shall be from the agricultural community or the agricultural support sector."

Many of the respondents to the Bureau's survey believe that one of the greatest needs of ADC is the ability to react immediately to occurrences in the private sector. This reaction should be free of the constraints of bureaucracy that burden other state agencies. To require every project or program ADC is to undertake to require the approval of its own board of directors and also BOA is a redundant time-consuming process.

Similar to ADC, pursuant to section 201B-2, HRS, the Hawaii Tourism Authority (HTA) is established as a body corporate and a public instrumentality of the State and for administrative purposes is placed within the Department of Business, Economic Development, and Tourism. However, unlike ADC, HTA's executive director may represent HTA in communications with the Governor and the Legislature.³ Also unlike ADC, HTA is exempt from some of the provisions of section 26-35, HRS, that require administrative supervision of its activities.⁴

3. Section 201B-3(a)(6), Hawaii Revised Statutes.

4. See section 201B-5, Hawaii Revised Statutes.

Recommendation No. 3

Again, if ADC remains an entity with a mission similar to the one in which it is presently engaged, the exemption from the Hawaii procurement code should be restored to ADC. As expressed by many of the respondents of the Bureau's request for comments, many responses stressed the importance of the ability for ADC to be able to react immediately, free from government constraint, whether in response to an order from the Commission on Water Resources Management or other government agency or to occurrences in the private sector. Additionally, and no less importantly, ADC must be able to immediately react to the forces of nature and acts of God, such as hurricanes, floods, and earthquakes, where possible damages may need immediate attention and repair and where the required action may not qualify for the emergency provisions of the Hawaii procurement code.

THE SENATE
TWENTY-THIRD LEGISLATURE, 2006
STATE OF HAWAII

S.B. NO. 3078
S.D. 2
H.D. 1
C.D. 1

A BILL FOR AN ACT

RELATING TO AGRICULTURE.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that Act 264, Session
2 Laws of Hawaii 1994, created the agribusiness development
3 corporation. The purpose of the agribusiness development
4 corporation is:

5 (1) To administer an aggressive and dynamic agribusiness
6 development program;

7 (2) To coordinate and administer programs to assist
8 agricultural enterprises to facilitate the transition
9 of agricultural infrastructure from plantation
10 operations into other agricultural enterprises;

11 (3) To carry on marketing analysis to direct agricultural
12 industry evolution; and

13 (4) To provide leadership for the development, financing,
14 improvement, or enhancement of agricultural
15 enterprises.

16 One of the responsibilities the legislature tasked this new
17 and dynamic entity with is to create the Hawaii agribusiness
18 plan. The plan's purpose is to define and establish goals,

1 objectives, policies, and priority guidelines for the
2 agribusiness development corporation's agribusiness development
3 strategy. However, this plan was never created.

4 The legislature finds that this plan is of utmost
5 importance, because it will help to guide the agribusiness
6 development corporation and its board of directors in each
7 program it administers. The purpose of this Act is to direct
8 the legislative reference bureau to conduct a study to assist
9 the agribusiness development corporation in identifying elements
10 to be included in the Hawaii agribusiness plan.

11 SECTION 2. The legislative reference bureau shall conduct
12 a study to identify elements that should be included in the
13 Hawaii agribusiness plan. In developing its report, the
14 legislative reference bureau shall:

- 15 (1) Identify the government agencies involved and
16 stakeholders who may directly benefit from the
17 agribusiness development corporation, including public
18 and private organizations and individuals;
- 19 (2) Consult with these agencies and stakeholders,
20 including but not be limited to individuals from the
21 department of agriculture, agribusiness development
22 corporation, University of Hawaii college of tropical

1 agriculture and human resources, Hawaii Farm Bureau
2 Federation, and county farm bureaus, as well as
3 organizations of individual farmers and ranchers, as
4 feasible;

5 (3) Obtain suggestions to improve the agribusiness
6 development corporation and identify the necessary
7 elements for developing the Hawaii agribusiness plan;
8 and

9 (4) Submit a report of its findings and recommendations,
10 including any proposed legislation, to the legislature
11 at least twenty days prior to the convening of the
12 regular session of 2007.

13 SECTION 3. This Act shall take effect upon its approval.



GOVERNOR OF THE STATE OF HAWAII

Approved this day: JUL - 4 2006

APPENDIX B

Title	FirstName	LastName	JobTitle	Company	Address	Phone
Ms.	Sandra	Lee	Chairperson, Board of Agriculture	Department of Agriculture	1428 South King Street Honolulu, HI 96814-2512	
Ms.	Teena M.	Rasmussen	Chairperson	Agribusiness Development Corporation	Leiopapa a Kamehameha Building 235 S. Beretania Street, Rm 205 Honolulu, HI 96813	
Dr.	Andrew G.	Hashimoto	Dean, College of Tropical Agriculture and Human Resources	University of Hawaii	3050 Maile Way, Gilmore 202 Honolulu, HI 96822	
Ms.	Laura	Thielen	Director, Office of Planning	Department of Business, Economic Development, and Tourism	250 South Hotel Street Honolulu, HI 96813	
Mr.	Peter T.	Young	Chairperson	Board of Land and Natural Resources	Kalanimoku Building 1151 Punchbowl Street Honolulu, HI 96813	
Mr.	Alan	Takemoto	Executive Director	Hawaii Farm Bureau Federation	2343 Rose Street Honolulu, HI 96819	848-2074
Mr.	Warren	Watanabe	President	Maui County Farm Bureau	P.O. Box 148 Kula, Maui 96790	8-1-808-878-2917
Ms.	Mary	Lelewi	Administrator	Big Island Farm Bureau	P.O. Box 2341 Kealahou, HI 96750	8-1-808-324-6011
Ms.	Stephanie	Whalen	President & Director	Hawaii Agriculture Research Center	99-193 Aiea Heights Drive Suite 300 Aiea, HI 96701	487-5561
Ms.	Sally	Rice	President	Hawaii Forest Industry Association	P.O. Box 10216 Hilo, HI 96721	933-9411
Mr.	Jim	Greenwell	President	Hawaii Cattlemen's Council	92-6931 Puliko Street Kapolei, HI 96707	
Mr.	Doug	MacCluer	Packer Director	Hawaii Tropical Fruit Growers	360 Hoopalua Drive Pukalani, HI 96768	8-1-808-573-5102
Mr.	Earl	Kurusu		Hawaii Food Manufacturers Association	P.O. Box 30812 Honolulu, HI 96820	422-4362
Mr.	Tim	Martin	President	Hawaii Coffee Association	P.O. Box 168 Kealahou, HI 96750	335-0048
Mr.	Clifford	Migita	President	Waimanalo Agricultural Association	c/o Annette Lee 41-208 Hihimanu Street Waimanalo, HI 96795	
Mr.	Dean	Uchida	Executive Director	Land Use Research Foundation	700 Bishop Street, Suite 1928 Honolulu, HI 96813	521-4717

Title	FirstName	LastName	JobTitle	Company	Address	Phone
Mr.	Chris	Kanazawa	President & CEO	Parker Ranch	67-1435 Mamalahoa Hwy Kamuela, HI 96743	885-7311
Mr.	Clyde	Fukuyama		Matsuda-Fukuyama Farms	59-715 Maulukua Road Haleiwa, HI 96712	
Mr.	G. Stephen	Holaday	President, Agribusiness	Alexander & Baldwin, Inc.	822 Bishop Street Honolulu, HI 96813	525-6611
Mr.	Stephen H.	MacMillan	President & CEO	Estate of James Campbell	1001 Kamokila Boulevard Kapolei, HI 96707	674-6674
Mr.	Allan	Smith		Grove Farm Properties, Inc.	P.O. Box 2069 Lihue, HI 96766	8-1-808-245-3678
Mr.	Sotero	Agoot	General Manager	Kona Pacific Farmers Cooperative	P.O. Box 626 Kealahakua, HI 96750	8-1-808-328-2411
Mr.	Paul	Koehler	President	Hawaii Crop Improvement Association	2111 Piilani Highway Kihei, HI 96753	
Mr.	Eric	Beaver	President & CEO	Hawaii Reserves, Inc.	55-510 Kamehameha Highway Laie, HI 96762-1193	293-9201
Mr.	Larry	Jefts		Jefts Farm	P.O. Box 27 Kunia, HI 96757	688-2892
Mr.	Alan	Arakawa		Castle & Cooke Hawaii, Inc.	P.O. Box 898900 Mililani, HI 96789	548-4801
Mr.	Fonua	Lauaki	Assistant Manager	BYU Hawaii	#1959 55-220 Kalanui Street Laie, HI 96762	293-3400
Ms.	Susan	Matsushima	Owner & President	Alluvion, Inc.	P.O. Box 820 Haleiwa, HI 96712	637-8835
Mr.	Howard	Yamasaki	Owner	C&H Farms	84-5095 Hawaii Belt Road Captain Cook, HI 96704	
Mr.	Brian	Nishida	President & CEO	Maui Pineapple Co.	870 Haliimaile Highway Makawao, HI 96768	8-1-808-877-3351
Mr.	Neil	Hannahs		The Kamehameha Schools	P.O. Box 3466 Honolulu, HI 96801	523-6200
Mr.	Dean	Okimoto	President	Nalo Farms	41-574 Makakalo Street Waimanalo, HI 96795	259-7698
Mr.	William	Paty	Trustee	Mark A. Robinson Trust	1132 Bishop Street, Suite 1930 Honolulu, HI 96813	440-2734

Highlighted mailed a few days later. Needed to find addresses.

Title	FirstName	LastName	JobTitle	Company	Address	Phone
Mr.	Steve	Chapman		USDA Rural Development Hawaii State Office	Room 311, Federal Building 154 Waiianuenue Avenue	933-8380
Mr.	Lawrence	Yamamoto	Director, Pacific Islands Area	Rural Business Service Natural Resources Conservation Service	Hilo, HI 96720 Prince Kuhio Federal Building 300 Ala Moana Blvd. Room 4-118 Honolulu, HI 96850	541-2600
Ms.	Gail	Fujita	Economic Development Representative	U.S. Department of Commerce Economic Development Administration	Prince Kuhio Federal Building 300 Ala Moana Blvd. Room 5180 P.O. Box 50264 Honolulu, HI 96850	541-3391
Mr.	Theodore	Liu	Director	Department of Business, Economic Development & Tourism	No. 1 Capitol District 235 S. Hotel Street Honolulu, HI 96813	586-2355
Mr.	Anthony	Ching	Executive Officer	Land Use Commission	235 S. Beretania Street Room 406 Honolulu, HI 96813	587-3822
Ms.	Jane	Testa	Director	County of Hawaii Department of Research and Development	25 Aupuni Street, Room 219 Hilo, HI 96720	961-8366
Mr.	Beth	Tokioka	Director	County of Kauai Office of Economic Development	4280 Rice Street Lihue, HI 96766	241-6390
Ms.	Lynn	Araki-Regan	Economic Development Coordinator	County of Maui Economic Development	200 South High Street Wailuku, HI 96793	270-7710
Mr.	Roy	Oyama	County Director	Kauai County Farm Bureau	c/o Hawaii Farm Bureau Federation 2343 Rose Street Honolulu, HI 96819	848-2074
Mr.	Grant	Hamachi	County Director	East Oahu County Farm Bureau	c/o Hawaii Farm Bureau Federation 2343 Rose Street Honolulu, HI 96819	848-2074
Mr.	Harry	Choy	County Director	West Oahu County Farm Bureau	c/o Hawaii Farm Bureau Federation 2343 Rose Street Honolulu, HI 96819	848-2074

Title	FirstName	LastName	JobTitle	Company	Address	Phone
Dr.	Lawrence	Tseu	President/Executive Committee Chair	Pacific Gateway Center	720 N. King Street Honolulu, HI 96817	845-3918
Mr.	Delan	Perry	President	Hawaii Papaya Industry Association	P.O. Box 537 Pahoa, HI 96778	965-8699
Mr.	Ron	Weidenbach	President	Hawaii Aquaculture Association	1177 Alakea Street, Room 400 Honolulu, HI 96813	
Mr.	Wayne	Katayama	Member	Agribusiness Development Corporation c/o Kilauea Agronomics, Inc.	P.O. Box 80 Kilauea, HI 96754	586-0186
Dr.	Robert	Osgood	Member	Agribusiness Development Corporation	47-775 Ahilama Road Kaneohe, HI 96744	586-0186
Ms.	Teena	Rasmussen	Chair	Agribusiness Development Corporation c/o Paradise Flowers	331 Ihe Place Kula, HI 96790	
Mr.	Robert	Sutherland	Vice-Chair	Agribusiness Development Corporation	RR-1, Box 751-D Kula, HI 96790	
Ms.	Susan	Harada	Member	Agribusiness Development Corporation	936A 12th Avenue Honolulu, HI 96816	
Mr.	Robert	Cooper	Member	Agribusiness Development Corporation	486-B Akolea Road Hilo, HI 96720	
Mr.	Dean	Matsukawa	Administrator	Agricultural Loan Division	Department of Agriculture 1428 South King Street Honolulu, HI 96814	973-9460
Mr.	Abe	Mitsuda	Planning Program Administrator	Department of Business, Economic Development & Tourism	P.O. Box 2359 Honolulu, HI 96804	587-2885
Mr.	Robert	Masuda	Deputy to the Chair	Office of Planning Department of Land and Natural Resources	P.O. Box 621 Honolulu, HI 96809	587-0402

APPENDIX C

Ken H. Takayama
Acting Director

Research (808) 587-0666
Revisor (808) 587-0670
Fax (808) 587-0681



LEGISLATIVE REFERENCE BUREAU
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

July 26, 2006

Dear

SUBJECT: Agribusiness Development Corporation Study

Act 264, Session Laws of Hawaii 1994, established the Agribusiness Development Corporation (ADC). The ADC was mandated to administer an aggressive and dynamic agribusiness development program that was to coordinate and administer programs to:

- (1) Assist agricultural enterprises to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises;
- (2) Carry on marketing analysis to direct agricultural industry evolution; and
- (3) Provide the leadership for the development, financing, improvement, or enhancement of agricultural enterprises.

In order to implement this mandate, section 163D-5, Hawaii Revised Statutes, directed ADC to prepare the Hawaii agribusiness plan that was to define and establish goals, objectives, policies, and priority guidelines for its agribusiness development strategy. However, to date, the ADC has not prepared the Hawaii agribusiness plan. Accordingly, S.B. No. 3078, C.D. 1, enacted into law as Act 267, Regular Session 2006, a copy of which is enclosed for your reference, directed the Legislative Reference Bureau to conduct a study to identify elements that should be included in the Hawaii agribusiness plan. In conducting this study, the Bureau was directed to identify and consult with government agencies and stakeholders, including public and private organizations, that may directly benefit from the activities of the ADC.

Therefore, the Bureau is making this initial contact with your organization with a request for the following:

- (1) Your understanding or perception as to what the role of the ADC is or should be in the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations;
- (2) Any recommendations that you may offer to improve the ADC in its performance of its responsibilities;
- (3) Identification of elements that you believe are necessary for the Hawaii agribusiness plan and any reasons supporting this;
- (4) Any proposed legislation that you believe will assist the ADC in its above-stated mandate; and
- (5) Any other suggestions as to how the Bureau may more effectively complete this study, as required by Act 267.

We would request that you submit a response to this letter not later than August 15, 2006, so that we may properly prepare and submit our report to the Legislature as required by Act 267. In most cases, the Bureau will be following up this initial contact with further consultation to assist us in our study and report back to the Legislature. If you have any questions, please contact Eric Maehara at the Bureau at 587-0659 or by email at maehara@capitol.hawaii.gov.

Sincerely yours,



Ken H. Takayama
Acting Director

Enc.

APPENDIX D

LINDA LINGLE
Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 Fax: (808) 973-9613

SANDRA LEE KUNIMOTO
Chairperson, Board of Agriculture

DUANE K. OKAMOTO
Deputy to the Chairperson

August 25, 2006

Mr. Ken H. Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Re: Agribusiness Development Corporation Study

Dear Mr. Takayama:

The Hawaii Department of Agriculture (HDOA) appreciates this opportunity to clarify the history and mission of the Agribusiness Development Corporation (ADC). We understand the concern regarding the situation with the Hawaii Agricultural Plan (HAP); however, there are several reasons why the ADC has not been able to submit a plan to the legislature. Most notably, since its inception, ADC has lacked the resources to develop such a plan.

Under the previous administration and a different executive board, the HAP was not identified as a priority and ADC's limited resources were devoted to other major projects, such as the Waiahole Irrigation System upgrades and the establishment of the Kekaha Agricultural Park on Kauai. ADC did submit an action plan in 2001 that described its commitment to supporting and expanding diversified agriculture.

ADC was established in 1994 and during its early days, its effectiveness was hampered by frequent staff turnovers and disagreements at the board level. Today, ADC is a much different organization. With several successful projects completed or in process, its mission to provide direction in transitioning agriculture from plantation monocrops to a uniquely diversified industry is being realized.

ADC has continued to do an excellent job of managing the Waiahole Water System since it was purchased by the state in 1999. On average, this ditch system supplies about five million gallons of irrigation water to farms in Central Oahu each day. The estimated annual farm gate value of the crops grown in this area is about \$95 million.

ADC took quick action in 2001 when Kekaha Sugar Company on Kauai ceased operations and ADC was able to stabilize the situation by negotiating the purchase of the abandoned prime agricultural lands. Today, ADC manages the approximately

12,500 acres of state-owned agricultural lands and the related infrastructure, including two major irrigation ditches, two hydro-electric plants and the distribution system, an extensive drainage system, and miles of roadways. The estimated annual economic value of the crops and products from the Kekaha area is more than \$30 million. In addition, through a contract with the U.S. Navy, ADC operates and maintains the Kawaiie and Nohili pump stations and drainage canals at the Pacific Missile Range Facility, providing flood protection for the Mana plain. ADC holds a National Pollutants Discharge Elimination System permit and is also in charge of opening a number of drains which provide flood relief to the town of Kekaha during inclement weather.

1. Role of the ADC.

When ADC was first conceived, it was projected to be a much larger organization staffed with a total of eight people to include managers, program specialists, and clerical support. In actuality, ADC started up with only two and, eventually, a total of three positions: an executive director, an administrative services officer, and a secretary.

ADC has and should continue to focus primarily on the preservation of agricultural infrastructure abandoned by former plantations and the continuation of large tracts of former plantation land in active agriculture. As agriculture transitions, management of those lands must adapt to fit the new crops, scale and types of agribusinesses farming it.

ADC provides the means to transition what used to be a single operation under corporate control to the management and coordination of many individual farming operations all dependent on shared infrastructure.

This role is key to continuing the expansion of diversified agriculture.

2. Recommendations to improve the ADC in its performance of its responsibilities.

It is evident that ADC is understaffed. To help address this situation, ADC has requested to move one vacant position from the Waiahole Water System program to the ADC office. This request is in its final phase of approval. The department is fully supportive of this action that will make better use of existing personnel resources.

Restoring ADC's procurement exemption, which was last in SLH 2004, would help ADC to respond rapidly as it is expected to.

3. Identification of elements necessary for the Hawaii agribusiness plan.

Elements of the HAP, as outlined in Chapter 163D-5, were reviewed and evaluated. Our conclusion is that while each element is important, many of the elements

identified in 1994 have subsequently been addressed or are being addressed currently by the Hawaii Department of Agriculture either directly or with ADC or by our many partners, including HFBB, HARC, and CTAHR.

Furthermore, in 2004, the Hawaii Farm Bureau Federation (HFBB) completed a very comprehensive plan entitled, "A Strategic Plan for Hawaii's Agriculture." Many, if not most, of the elements that would be the basis of the HAP were thoroughly discussed in the HFBB plan. Many in the agricultural community believe that another plan is not necessary as it will essentially be a duplication of the Farm Bureau plan.

- (1) An inventory of agricultural lands with suitable adequate water resources that are or will become available due to the downsizing of the sugar and pineapple industries that can be used to meet present and future agricultural production needs;

The need for an inventory in 1994 was different than today. In order for such an inventory to be useful, the inventory needs to be detailed and comprehensive which is an expensive and time-consuming exercise requiring resources currently not available to ADC.

However, pursuant to Act 183, SLH 2005, the Important Agricultural Land legislation requires the counties to identify and map agricultural lands with many characteristics that are important for agricultural viability such as an adequate water supply, appropriate soil characteristics, proximity to market, availability of transportation, etc. This is a very comprehensive effort covering more than just former plantation lands and will result in the outcome sought in 1994.

ADC is an active participant in DOA's efforts to develop incentives for IAL and will join in the counties' mapping and inventorying of resources when the effort commences. In the interim, the plan could include the screening criteria that ADC will use when it selects projects and its priority projects in the foreseeable future. In recent months, ADC has been approached to take over the East Kauai Irrigation System and about 7,000 acres of state-owned agricultural lands (Kauai), various Kau district water system sources (Big Island), and most recently the Wahiawa Water System (Oahu). ADC recognizes the value of these systems to agriculture and is actively exploring the feasibility of taking on responsibility for stabilizing and improving these systems.

- (2) An inventory of agricultural infrastructure that will be abandoned by sugar and pineapple industries such as irrigation systems, drainage systems, processing facilities, and other accessory facilities;

See above. Also, the Agricultural Resource Management Division of the Hawaii Department of Agriculture has completed Phase I and II of the Agricultural Water Use and Development Plan (AWUDP) and is in the process of working on Phase III of this project. This plan identifies and describes many of the major irrigation systems statewide, including both private and public systems. The AWUDP also projects future water use demands, identifies water sources and infrastructure needs, and strategies to meet such demands. Over \$1 million has been expended on the AWUDP and the Hawaii Water Resource Survey (HWRS) thus far.

ADC should focus on the infrastructure associated with ADC's high priority projects and criteria to select projects for infrastructure that will be identified through the AWUDP.

- (3) *An analysis of imported agricultural products and the potential for increasing local production to replace imported products in a manner that complements existing local producers and increases Hawaii's agricultural self-sufficiency;*

In the 1980's and the early 1990's the Governor's Agriculture Coordinating Committee (GACC) provided funding for in-depth industry analyses which identified bottlenecks and solutions for the various commodity groups. At its peak, about \$6 million was available annually for the analyses. Funding for the GACC and this type of analyses ceased during the Cayetano administration. Currently, the Agricultural Development Division of the HDOA provides statistics on the production of a variety of crops in the state and updated pricing information for industry and the public to use.

There is merit in conducting a current analysis of agricultural products that could be produced in Hawaii competitively. The last one was conducted in 1993 by the University of Hawaii College of Tropical Agriculture and Human Resources (CTAHR).

We suggest that funding be provided to CTAHR to conduct industry analysis to identify the potential of our major agricultural industries and what is needed to achieve those potentials. These analyses should be done periodically and could be incorporated into the HAP.

- (4) *Alternatives in the establishment of sound financial programs to promote the development of diversified agriculture;*

During the past several years HDOA's Agricultural Loan Division (ALD) has done a significant amount of outreach work to various agribusinesses as well as lending institutions. The Agricultural Loan Division's loan limit of up to \$800,000 allows it to meet most Hawaii farmers' needs and participation loans

and loan guarantees encourage commercial banks to lend to agricultural businesses. The ALD is working closely with First Hawaiian Bank in a pilot program to educate the bank staff on the financial needs of the industry and will be expanding this effort to the other major institutions.

Unlike the mid-90's when there were few options for small and startup farmers seeking financing, there are now micro lenders such as the Pacific Gateway Center, Lokahi Pacific, and Economic Opportunity offices located throughout the state. These organizations have loan limits up to \$35,000.

Act 183, SLH 2005, requires the HDOA to identify incentives for farmers and landowners. This is an excellent opportunity to enhance existing programs and create additional financial programs for agriculture. As mentioned previously, ADC is a member of the incentives development effort.

Rather than divert ADC's present focus and duplicate other successful efforts, we believe that this element should not be included in the HAP. Rather, ADC could serve a better role by networking with ALP and the financial services providers and making their products known to ADC's own clients.

- (5) Feasible strategies for the promotion, marketing, and distribution of Hawaii agricultural products in local, national, and international markets;

For many years, the promotion and marketing of Hawaii agricultural products has been handled by the Agricultural Development Division of the HDOA, which has sustained many rounds of staff and funding cuts during the past 10 to 15 years. ADD rather than ADC is in the best position to lead the effort to expand markets for Hawaii agriculture. HDOA receives federal funds for marketing and is a member of National organizations through which funds are channeled.

This element should be part of the HAP but the strategy itself should reflect the integration of the Hawaii Farm Bureau Strategic Plan and the market-specific work of the Agricultural Development Division and the industry analyses conducted by CTAHR. These three entities should work together to develop the overall strategy. Funding should be provided for this effort.

- (6) Programs to promote and facilitate the absorbing of displaced agricultural workers into alternative agricultural enterprises;

Unlike the 90's, there is currently a severe shortage of labor statewide. Agribusinesses have a difficult time merely sustaining their current production levels, let alone expanding production. Foreign agricultural labor, under the federal H2A guest worker program, has been brought into the state by various organizations to meet our labor needs.

At this time, this element should not be included. Conversely, we suggest that the more critical issue that should be addressed is the shortage of agricultural labor in the state. The HDOA in partnership with the Department of Labor and Industrial Relations (DLIR) has taken the lead on this issue.

- (7) Strategies to insure the provision of adequate air and surface transportation services and supporting facilities to support the agricultural industry in meeting local, national, and international market needs;

There is a recognized need to address transportation issues with the goal of lowering costs as well as delivering fresher and more attractive products, which will help agribusinesses become more competitive. HDOA, Department of Transportation, Hawaii Farm Bureau, and the Department of Commerce and Consumer Affairs are working together on issues relating to transportation along with the Superferry and Young Brothers.

We believe that the element should be included in the HAP but should incorporate data gathered and analyzed by others such as HDOA's Agricultural Development division or UH CTAHR and strategies worked out between state government and the private sector.

- (8) Proposals to improve the gathering of data and the timely presentation of information on market demands and trends that can be used to plan future harvests and production;

It is the responsibility of HDOA's Agricultural Development Division and the National Agricultural Statistics Services to collect and provide useful information to the agricultural industry. This information is made available on the HDOA website, which is very easy to navigate. This element should not be included in the HAP as it would be a duplication of effort.

If given the resources, HDOA's Agricultural Development Division could increase its information service in providing market leads and matching of buyers to sellers. As this is a dynamic process, it should not be part of the HAP.

- (9) Strategies for federal and state legislative actions that will promote the development and enhancement of Hawaii's agricultural industries.

ADC is regularly asked for and provides comments on proposed federal and state legislative actions that impact ADC's operations and mission. Its current strategies are directed towards preservation of agricultural infrastructure and

the continuation of large tracts of land in active agriculture. This element should continue to be part of the HAP as it is an integral part of ADC's operations.

4. *Any proposed legislation that may assist ADC in its above-stated mandate.*

If it is the intent of the legislature to complete the ADC Strategic Plan in the exact form as described in the legislation, we request that the legislature appropriate adequate funding for ADC to prepare the HAP. Additionally, the legislature should consider approving one more full-time staff position at ADC.

After losing its procurement exemption pursuant to Act 216, SLH 2004, ADC has struggled to efficiently execute its contracts like its private sector partners. ADC recognizes the need to conduct its business transparently and the intent of Act 216 to ensure that business practices are ethical and lawful. However, if ADC is to be the rapid reaction force for state government to handle transitions as it was intended to be, the ability to move as quickly as the private sector is critical. The legislature should consider restoring ADC's procurement exemption status.

5. *Any other suggestions as to how the Bureau may more effectively complete this study.*

We suggest that you conduct interviews with selected stakeholders and ADC board members. During the interviews with the ADC board, we suggest that you ask what other elements might be included in the plan rather than limit it to those nine included in your letter. Stakeholders and board members should be asked to prioritize ADC's functions as its statute mandates far more than the resources allocated to it allows.

We would like to thank you for this opportunity to comment on the HAP and the ADC. Please feel free to contact me at 973-9550 if you have further questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Sandra Lee Kunimoto", written in a cursive style.

Sandra Lee Kunimoto, Chairperson
Board of Agriculture

LINDA LINGLE
Governor



SANDRA LEE KUNIMOTO
Chairperson, Board of Agriculture

DUANE K. OKAMOTO
Deputy to the Chairperson

State of Hawaii
DEPARTMENT OF AGRICULTURE
Agricultural Loan Division
1428 South King Street
Honolulu, Hawaii 96814-2512

August 9, 2006

Mr. Ken H. Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Dear Mr. Takayama,

RE: Agribusiness Development Corporation Study

This is in response to your request for information regarding the Agribusiness Development Corporation Study. The following are the responses to your topics:

- 1) The role of ADC was to facilitate the transition of agriculture from plantation agriculture to diversified agriculture. It was also tasked with preserving plantation infrastructure in order that it may be utilized by diversified agriculture. ADC in order to accomplish its goals should work closely with the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation and other agricultural agencies and service organizations.
- 2) ADC will need to become more visionary and big picture oriented. The organization now takes on projects that are brought to ADC rather than actively pursuing projects it deems will further the development of diversified agriculture and be the "best bang for the buck". For example, ADC could negotiate with large landowners for large tracts of prime agriculture lands with long term leases. ADC could be the master lessee and then sublease smaller parcels for individual farms. Smaller parcels could be used as a "nursery" to develop new farmers and College of Tropical Agriculture could provide the training. Another example may be a packing/processing facility to allow farmers to comply with new food safety standards or create value added products.
- 3) The plan should cover elements such as land, water, infrastructure, capital, transportation, markets, research/education/training and competition.
- 4) ADC responsibilities/mandates are broad and comprehensive. Any proposed legislation should seek to expand its current staff and provide adequate resources for

Page 2
Mr. Ken H. Takayama
August 9, 2006

ADC to accomplish its goals.

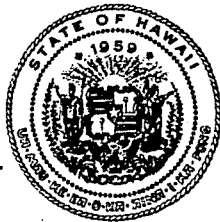
- 5) The Bureau may want to consider adding in large land owners or owners of agricultural resources, banks, produce wholesalers(marketers) and the Hawaii Agricultural Research Center (HARC) as any plan will need to include their input and cooperation.

If you have any questions or have any concerns please feel free to contact me at 973-9460.

Sincerely,



Dean M. Matsukawa
Agricultural Loan Administrator



DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

No. 1 Capitol District Building, 250 South Hotel Street, 5th Floor, Honolulu, Hawaii 96813
Mailing Address: P.O. Box 2359, Honolulu, Hawaii 96804
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LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
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DEPUTY DIRECTOR

Telephone: (808) 586-2355
Fax: (808) 586-2377

August 25, 2006

Mr. Ken H. Takayama
Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Takayama:

Reference is made to your letter dated August 4, 2006, regarding the Agribusiness Development Corporation study being conducted by the LRB.

Because of my position as an ex-officio board member of the Hawaii Department of Agriculture (DOA), I have some general familiarity with the challenges faced by the ADC. In my view, the roles and responsibilities of ADC and the DOA need to be more clearly delineated.

Although "the ADC is mandated to administer an aggressive and dynamic agribusiness development program ... (including) marketing analysis (and) leadership for the development of agricultural enterprises", the DOA also has similar responsibilities and is the lead state agency in these areas. The ADC has limited staffing and, it seems, as currently structured would not be able to adequately fulfill this mission.

Additionally, the ADC's mandate to "assist agricultural enterprises to facilitate the transition from plantation operations into other agricultural enterprises" is one that might be too ambitious given their level of funding and staffing resources. In DBEDT's experience, because of the lack of financial and human resources, that direct assistance or participation from ADC in our programs was limited to just passing on a name and number for consideration. ADC did not play the role as a facilitator bringing together new agricultural related enterprises with landowners (public and private) of former plantation lands as had been expected. Given their mandate, it had been expected that ADC would help an enterprise to locate available and appropriate land, and bring them together with the land owners for negotiations.

I trust these comments are constructive. Please feel free to let me know if you have any further questions.

Very truly yours,

Theodore E. Liu

UNIVERSITY OF HAWAII AT MĀNOA

College of Tropical Agriculture and Human Resources
Office of the Dean and Director

September 1, 2006

Mr. Ken H. Takayama
Acting Director
Legislative Reference Bureau
State of Hawai'i
State Capitol
Honolulu, Hawai'i 96813

Dear Mr. Takayama:

This letter is in response to your request for input on the Agribusiness Development Corporation (ADC). I will structure my responses according to the questions you posed:

1. Role of ADC.

The ADC was envisioned to have a much greater role than it currently has. Much of this discrepancy is due to inadequate human and fiscal resources to accomplish what was envisioned.

2. Recommendations to improve ADC.

It is clear that the role envisioned for ADC in Act 264 is greater than the resources available to the agency. Agriculture and entities involved with agriculture have evolved since 1994. The mission of ADC should be focused on item 1 of its stated mission, "Assist agricultural enterprises to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises." They should be focused on managing large tracks of land and the irrigation and related infrastructure to support agricultural enterprises on those lands. They are already doing this at Kekaha on Kauai, and should expand to other locations in the state.

3. Necessary elements of the Hawai'i Agribusiness Plan.

The Agribusiness Plan developed in 1994 is obsolete. I see little to be gained by trying to have ADC fit into the nine elements of the Plan. Given the more focused mission that I have proposed above, a new plan should be developed to articulate ADC's current responsibilities and its potential role in managing aspects of the important agricultural land and infrastructure incentives developed to meet the mandates of Act 183 (Important Agricultural Land legislation).

4. Legislation needed to assist ADC.

I believe that legislation would be needed if the focus of ADC would be narrowed as recommended above. Even with a more focused mission, ADC is still understaffed and additional staffing is needed. Finally, they need the procurement exemption originally granted to them to enact transactions in a timely manner.

5. Other suggestions.

Some thought should be given to the relationship of ADC to the Department of Agriculture. Should it function as a division of the DOA, an autonomous agency, or something in between? I see a real need for an agency that can move quickly without the constraints of the state bureaucracy. I am not sure how this can be accomplished, but if a creative way could be found to establish such an agency, I think it would make a tremendous difference in moving agriculture development forward at a faster pace.

Thank you for the opportunity to provide input on this issue. Please feel free to contact me if you would like further clarification of the suggestions I have made.

Sincerely,

A handwritten signature in black ink, appearing to read "Andy Hashimoto", written in a cursive style.

Andrew G. Hashimoto
Dean and Director



Hawaii Farm Bureau
F E D E R A T I O N

2343 Rose Street, Honolulu, HI 96819
PH: (808) 848-2074; Fax: (808) 848-1921
e-mail info@hfbf.org

August 15, 2006

Mr. Ken Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96819

Dear Mr. Takayama:

In your letter dated July 26, 2006, you have requested our participation in identifying elements that should be included in the Agribusiness Development Corporation's Hawaii Agribusiness Plan. The following is our response to your questions.

1. Your understanding or perception as to what the role of the ADC is or should be in the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations.

Our understanding or perception as to the role of the ADC is to assist in the transition from plantation agriculture to diversified agriculture. ADC was formed to be a public/private organization that has the ability to bypass many of the "bureaucratic red tape" that often times slows down government. ADC was modeled after HCDCH and other semi autonomous government entities to move and procure projects more aggressively and at a more efficient rate.

The ADC was set up to be administratively attached to DOA to allow both entities to coordinate efforts in transitioning Hawaii's agricultural industry. This partnership is necessary as agricultural issues and marketing systems often impact one another. ADC's main function or role is to assist in the re-development of land and water infrastructure for diversified agriculture. The Hawaii Farm Bureau's relationship with ADC is to bring the farmers and ranchers and other commodity groups together for input and direction.

ADC should play a larger role in the development of new crops such as biofuels which has great potential. These types of new crop development will have an impact in the expansion of Hawaii's agricultural industry. We should continue to strive to be at the leading edge of technologies as well as biofuels, biotechnology, and other high technology related industries.

We suggest amending Act 183 to incorporate ADC's role in identifying and implementing incentives for agribusiness within the important agricultural lands. This will give them a greater mandate and an active role in assisting agribusinesses within these transitional agricultural regions

5. Any other suggestions as to how the Bureau may more effectively complete this study, as required by Act 267.

The Bureau should use existing agricultural plans such as the Farm Bureaus' strategic plan and the DOA's general agricultural plan. This will reduce duplication of resources and efforts to start a whole new plan. At this point, we should be updating or implementing sections within these plans.

The Bureau should also look at similar statutes of other semi-autonomous agencies like HCDCH, HCDA, and Hawaii Tourism Authority. This will help compare and gauge the resources, mandates, and effectiveness of this study.

We appreciate the opportunity to provide comments on the study. If you have any questions, please call Alan Takemoto, Executive Director or myself at 848-2074.

Sincerely,

A handwritten signature in black ink, appearing to read 'Dean J. Okimoto', written over a horizontal line.

Dean J. Okimoto
President



Maui County Farm Bureau

P.O. Box 148

Kula, Hawaii 96790



August 14, 2006

Mr. Ken Takayama, Acting Director
Legislative Reference Bureau (LRB)
State of Hawaii, State Capitol
Honolulu, Hawaii 96813

Dear Mr. Takayama:

Maui County Farm Bureau on behalf of its member farmers and ranchers appreciates this opportunity to provide input towards improving the performance of the Agricultural Development Corporation.

Your understanding or perception as to what the role of the ADC is or should be in the agricultural industry, and particularly, in relation to the Department of Agriculture College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service providers.

Many Maui farmers were skeptical about the intent of ADC at its' formation. During informational meetings, import substitution was often cited as a goal. Questions were raised about the impact on Maui farmers as truck farming was begun on the Ewa plains. As Maui sugar plantations continued to be viable, our farmers were cognizant that ADC assistance would not be available to them. They felt they could not compete in the marketplace and wanted to know the overall impact of ADC on their livelihood.

Hindsight is 20/20, and today, we realize that while overall agricultural production in Hawaii has increased with the vegetable and fruit production on the Ewa Plains, there was insufficient support to farmers in other areas that were impacted by the action. Many farmers on Maui have gone out of business as markets were lost and mechanisms to help these farmers transition to new crops were not in place. This is unfortunate, recognizing that Hawaii still imports significant quantities of fruits and vegetables and placing all of the production is counterproductive, resulting in pest build up and loss of production.

This experience has emphasized that the role of ADC, needs to be, not only to build agribusinesses, but to understand the system within which it exists within the whole state and to mitigate negative impacts where possible. Moving agribusinesses from one area to another and leaving a void does not accomplish the intent of this organization.

Maui's experience emphasizes the lack of sufficient capabilities within the system to provide the timely technical knowledge to help farmers transition. New crops, latest technologies to reduce labor or costs, funding opportunities to finance new programs were not available. HDOA and CTAHR's capacities to provide these services must be built to assist ADC in carrying out its' mission.

Independence is a basic characteristic of successful small business farmers but it can fall in the way of taking advantage of collaborative opportunities. It is the role of HFBB and other commodity organizations to help bring farmers together to jointly seek solutions. HFBB like HDOA and CTAHR an extensive network at the national level. These networks should be utilized to the maximum extent possible.

In summary, we see ADC being the leader for land and water, CTAHR for research and development, HDOA for regulatory and marketing functions associated with government and HFBB and Commodity organizations for bringing farmers and ranchers together and to serve as the conduit of information between parties as well as work within the legislative process both locally and nationally.

Any recommendations that you may offer to improve the ADC in its performance of its responsibilities.

Successful organizations have leaders that have a clear vision and have the capacity to share this vision with others to build relationships that will allow implementations of the vision. First and foremost, leadership at ADC should be evaluated for their capacity to carryout the mission. Mechanisms that allow for such leadership must be implemented.

The initial intent of an independent ADC, separate from existing agencies must be implemented to allow timely action by the Corporation. Much of the infrastructure that ADC was supposed to protect has fallen to disrepair and continues to degrade ...soon, the damage may be irrecoverable. Timely action is needed –it is counter to the often slow government bureaucratic processes. Similiarly, many lands are fallow making them prime pickings for development. ADC must be funded appropriately with strong leadership and support.

Identification of elements that you believe are necessary for the Hawaii agribusiness plan and any reasons supporting this:

Many acres of vacant lands make it evident that land alone will not result in agriculture. Consecutive years of droughts threatening agricultural viability, coupled by lawsuits that threaten agriculture's right to use existing water resources are major concerns to agriculture. The Plan must seek ways to identify and ensure affordable and reliable water resources for farmers and ranchers. This means not only addressing infrastructure needs but to look at regulatory actions needed to protect agricultural water supplies.

Maui's experience emphasizes that farmer viability is key. The Plan must identify the means by which new farms can be started with a high degree of success and existing farms can be expanded or transitioned to meet the challenges of a changing marketplace. While CTAHR is an important resource, advances in technologies make cooperative arrangements entities away from Hawaii possible through distance learning centers or other means. A variety of alternatives should be identified and implemented. Ultimately,

Hawaii's small population makes it inevitable that successful export of goods must occur. Focused and aggressive development of export opportunities is critical.

Policy and regulatory support of agriculture and the means to obtain it should be part of the Plan. Permitting delays, resulting in exorbitant cost increases resulted in the cancellation of an expansion project by one of our farmers. It illustrates the role government can play towards the success of ADC's mission. Timely permitting does not cost tax dollars but will mean tremendous cost savings to a business. The means to ensure such actions must be part of the plan.

Recent announcements relating to deficiencies within our transportation infrastructure has again placed farmers on "neighbor" islands at risk. Neighbor island farms face additional transportation costs and delays not borne by those close to population centers or major ports. How to obtain parity for farmers and ranchers on neighbor islands needs to be identified or their opportunity for expansion will be limited.

The Hawaii Farm Bureau Federation has prepared and regularly updates a Strategic Vision and Implementation Actions for Agriculture in Hawaii. All of the components mentioned above are included. We strongly recommend that this Vision and Plan be used as the basis a Hawaii Agribusiness Plan. Duplication of effort is counterproductive. Rather, time would be better spent further developing the implementation actions.

What is critical is the long term funding of ADC – not only to support itself to provide for the necessary technical and management personnel and operating dollars but also to find funding that can be provided to agribusiness to begin or expand their businesses. A Plan to execute such action is appropriate. Many States seek Federal Funds through Rural Development or other Programs that are in turn, made available to farmers and ranchers. ADC should aggressively seek such extramural funding to help finance new and expanding businesses. The Plan should include the processes for long term sustainable funding of ADC projects.

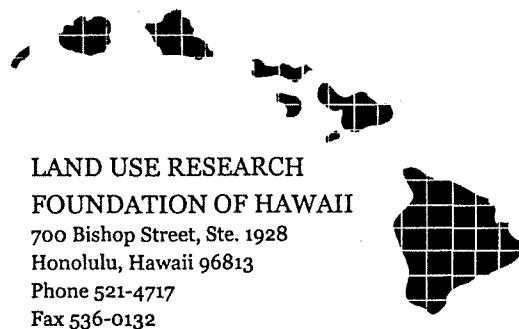
Any proposed legislation that you believe will assist the ADC in its above-stated mandate;

Passage of Act 183 during the 2005 Legislative Session makes it imperative that ADC's mission be reevaluated. It is a waste of resources to address Important Agricultural Lands outside of the ADC mandate. Legislation to include implementation of viability components relating to IAL as part of ADC's mission is appropriate.

Unfunded mandates tend to fail. Legislation to provide adequate funding to allow ADC to carryout its' mission is critical.

Clarification of the role of the various departments with ADC is expected to assist ADC in carrying out its mission. Review of ADC's structure and clarification of its relation to the various departments may be appropriate.

Thank you for this opportunity to share with you the experiences we have had on Maui and our views on ADC. If there are any questions, please contact Warren Watanabe at 281-9718.



August 11, 2006

Mr. Ken Takayama, Acting Director
Legislative Reference Bureau (LRB)
State of Hawaii, State Capitol
Honolulu, Hawaii 96813

Dear Mr. Takayama:

Subject: Agribusiness Development Corporation Study

Thank you for your letter of July 26, 2006 requesting our participation in identifying elements that should be included in the Hawaii Agribusiness Plan.

We understand that S.B. 3078, C.D. 1 requested that the LRB conduct a study in to assist with the preparation of the Hawaii Agribusiness Plan.

As a part of this effort, LRB is consulting with various organizations requesting responses 5 specific questions. The questions are intended to identify elements that should be included in the plan. These questions and our response are provided below.

1. ***What is your understanding or perception as to what the role of ADC is or should be in the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations?***

The findings and purpose section of the law creating ADC speaks to the vision that the authors had when ADC was conceived. "... Constantly evolving economies require an aggressive and dynamic leadership for the promotion and development of agricultural enterprises, and centralized leadership to coordinate industry development, provide industry-wide services, provide marketing assistance, and facilitate investments and co-ventures in viable enterprises." (Chapter 163D-1 HRS)

Recognizing the limitations of the existing government bureaucracy to respond to the changes to Hawaii's agricultural industry (i.e. Closing sugar and pineapple, mono-crop plantations), the legislature attempted to create an entity that could maneuver, and when necessary, pierce through the existing bureaucracy to create realistic solutions. ADC was envisioned to take a ***leadership role*** in transitioning from plantation agriculture to

other new agribusinesses. It was never intended that ADC would be another “layer of government.”

ADC’s primary objective is to assist in the transition to agribusinesses that are “economically viable.” It was to use its authority and powers to transition agribusinesses in Hawaii from mono-crop plantations to more diverse agribusinesses. It did this by assisting the agricultural industry with developing new products and markets, keeping existing water, land and infrastructure available for transitional new agribusinesses, and removing barriers to facilitate the transportation and processing of Hawaii agricultural products. To achieve these outcomes, ADC primarily focused on:

- a) Creating incentives to attract investment (capital) in infrastructure and/or new agribusinesses;
- b) Removing government barriers that hinder, limit, or restrict the development of new agribusinesses;
- c) Focusing government resources (agency actions, programs, funding, grants, etc.) to assist new agribusinesses.

Implicit in the statutory language is the need for ADC to act independently. It established no formal relationships with existing government agencies; however, the focus on outcomes requires ADC to work with existing government agencies to achieve the desired results. Furthermore, being outcome oriented as opposed to process oriented, which is generally the focus of government, ADC is expected to find non-traditional models and methods to achieve success. Part of the difficulty is that in a dynamic and rapidly changing market, there was no “template” for an entity like ADC. ADC was created with a specific focus and provided with the tools and flexibility necessary to try new ideas to assist in the transition.

The vision and tools necessary to implement are largely already included in the existing statutes; however, it is difficult to legislate leadership, creativity and desire.

2. *Any recommendations that you may offer to improve the ADC in its performance of its responsibilities?*

The reporting mechanism between ADC, ADC Board, and the Legislature needs to be improved. Defining roles and responsibilities, oversight, and accountability all need to be done as soon as possible. Progress then can be tracked and reported. To the extent possible, these reporting mechanisms should be transparent and built into the programs or projects through establishing measurable performance standards or milestones for the program or project. Progress can then be tracked as each project or program provides status reports.

With a 3% unemployment in Hawaii, putting together an effective team is challenging for any organization, and even more so given the limits of government compensations. One thought would be to establish performance standards (annually) and allow for increased compensation when performance exceeds expectations.

3. *Identification of elements that you believe are necessary for the Hawaii agribusiness plan and any reasons supporting this?*

It should be clearly stated that ADC's role is primarily to support viable agricultural operations. One of the basic challenges that Hawaii's agricultural industry faces is whether or not new agribusinesses can be economically viable in Hawaii, not only to supply our in state needs, but also be competitive as an export product in the global market? In promoting agricultural viability, at a minimum, the plan should address improvements in the following areas:

- a) Land and Water
 - i) Provide incentives that would put lands into viable agricultural uses;
 - ii) Create real property tax structure, land tenures, subdivision standards that would encourage owners to put lands into viable agricultural uses;
 - iii) Provide certainty on the availability of agricultural irrigation water for viable agricultural uses;
 - iv) Insure that agricultural irrigation water allocation be given a higher priority commensurate with the constitutional recognition to protect important agricultural lands;
 - v) Provide incentives and/or regulatory relief to maintain and expand existing agricultural infrastructure to accommodate new viable agricultural uses.
- b) Government Regulatory Environment
 - i) Change the philosophy of how government views agriculture. For example, without compromising public health or safety, what can government do to allow the "market forces" to determine what are viable agricultural uses;
 - ii) Develop alternatives to existing government regulations on agricultural uses. Develop a new process or regulatory structure that allows an investor to "test" the market to determine if a product is viable.
- c) New Product/Market Development
 - i) Work with investors/producers who are interested in developing new viable agricultural products;
 - ii) Work with investors/producers who are interested in developing new markets for viable agricultural products grown or produced in Hawaii;

4. *Any proposed legislation that you believe will assist the ADC in its above-stated mandate?*

We would suggest that the legislature consider legislation on the need for improved reporting (increased accountability), and providing "incentive" compensation as stated in item no. 2 above.

5. *Any other suggestions as to how the Bureau may more effectively complete this study as required by Act 267?*

The study's focus is on the need to complete the agribusiness plan. The intent appears to be to assist ADC in identifying elements of the plan. We believe that the study needs to also address accountability issues to improve the organizations overall performance.

The existing statute lists the qualifications of the 11 ADC Board members, and allows them to select the Executive Director. Given the fact that the Hawaii Agribusiness Plan,

although required in the enabling legislation, was never completed, we would suggest that the study also look at establishing milestones, reporting mechanisms, or performance standards for both the Board and ADC staff that would ensure proper legislative oversight in implementing the policies in the enabling legislation.

We appreciate the opportunity to provide comments on the study. Should you have any questions regarding this matter, please feel free to contact us at 521-4717 or e-mail at duchida@lurf.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Uchida', written in a cursive style.

Dean Uchida, Executive Director



HAWAII AGRICULTURE RESEARCH CENTER

FORMERLY HAWAIIAN SUGAR PLANTERS' ASSOCIATION

99-193 AIEA HEIGHTS DRIVE, SUITE 300, AIEA, HAWAII 96701-3911

TELEPHONE: (808) 487-5561 FAX: (808) 486-5020

<http://www.hawaiiag.org/harc>

August 11, 2006

Mr. K. H. Takayama
Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Takayama:

Thank you for asking for HARC's input into your analysis of the Agribusiness Development Corporation (ADC) for the legislature. As pointed out in your correspondence of 7/26/06 the ADC had many charges. To provide a meaningful report I expect you plan to add the legislatively appropriated budget since inception including the funds that have been removed for other purposes. Without having the accompanying fiscal information my opinion is any report would be of limited value.

With respect to the preparation of a Hawaii agribusiness plan I would like to bring to your attention if you haven't already discovered it that there have been at least 8 such plans without implementation since 1966. These were either called State Agriculture Plans or State Agricultural Functional Plans or similar titles. None of these plans have been implemented nor is there much difference among them. The issues have been recognized for decades; solutions have been suggested; little implementation has occurred.

HARC has a long history of agricultural production and development in the state and participated in many of these plans. It has also been atuned to ADC since its inception and aware of its financial constraints. Utilizing its resources where it could make some progress rather than focusing on yet another plan or on small efforts in the many mandates it was given was a wise use of its very limited resources given the tasks previously identified in state agricultural plans.

On the attached sheet HARC provided specific comments to your itemized requests, 1-5.

Sincerely,

Stephanie A. Whalen
President and Director,
Experiment Station

SAW:fc
Attachment

1. Your understanding or perception as to what the role of the ADC is or should be in the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm bureau Federation and other agricultural agencies and service organizations:

ADC has developed within a period of transition for agriculture and many of the its support organizations, including those listed above. Each is growing/establishing/strengthening expertise in particular support areas; all attempting not to overlap or duplicate each other's innate or specialty area. The past was marked with multiple institutions or bodies attempting to do it all for their clientele. With the drastic change in the agricultural sector make-up and the significant reduction in resources for agricultural support functions there has been a natural sorting of expertise and increase communication and cooperation among the remaining support organizations.

ADC's niche has evolved into the management of large scale water systems and the public and private lands associated with them. The systems were once handled by private entities having a self interest in maintaining them for their businesses. As these water systems are orphaned by departing large scale agricultural enterprises and by the remnant land owners there is an urgent need for an organization to step in and manage these systems for multiple smaller and diversified agricultural users. ADC stepped into this role and is evolving the expertise to manage these diverse and complex systems, each one unique to itself. This is a tremendous challenge as everyone is discovering from the floods of this passed winter. It is also being realized that it is unrealistic to expect property owners without resources or special interests in production agriculture to manage these large and unique systems. If agriculture is to be sustainable in Hawaii, at least some of these water distribution systems must survive. Water is an essential input for sustainable agriculture; consequently if sustainability is a state goal then water resources and distribution needs to be protected. There are no other support entities that can provide this role. This is a perfect role for ADC which it has embraced.

2. Any recommendations that you may offer to improve the ADC in its performance of its responsibilities.

Because of the nature of the irrigation systems and the businesses it serves that ADC manages it needs to recover its previous ability to operate outside the procurement system. ADC manages irrigation systems. Water is a necessary weekly if not daily agricultural input. At this point the systems it manages are not in the best of condition and a serious disruption in the distribution system could occur at any time. However, ADC must abide by the procurement process which can add not days but many weeks to its ability to fix anything. This is totally unacceptable and puts the agricultural businesses dependent on water delivery in a serious risk situation. Timely repairs must be part of management. The procurement system is not sensitive to timely repairs. Recognizing the need to expand the staff expertise in water systems and management; and having the funds to accomplish this.

3. Identification of elements that you believe are necessary for the Hawaii agribusiness plan and any reasons supporting this.

The Hawaii Farm Bureau Federation, an organization representing the farming community, has the most recently developed A Strategic Plan for Hawaii's Agriculture. Is a living plan that evolves as progress is made. It is authored by the community/industry that the public/private agricultural institutions/organizations are supporting. As all the state plans before it, it identifies what needs to be done. What is needed is for all the support organizations to work with this 'plan' and develop and support action items within their expertise for implementation.

4. Any proposed legislation that you believe will assist the ADC in its above-stated mandate; and

Legislation that supports agriculture water use and clarifies that this use is in the public interest and part of the public trust uses; that completes a comprehensive state agricultural water use plan - island by island focusing on the need for water specifically for the sustainability of agriculture into perpetuity.

5. Any other suggestions as to how the Bureau may more effectively complete this study as required by Act 267

Review the multiple old state agricultural plans mentioned in my letter and report how they pretty much all say the same thing but were never implemented. Identify the fact that the industry/private sector has taken on that responsibility and developed a plan named above (not much different than the others, but now the private sector has ownership of their future in the plan's implementation). Identify the existing support organizations and how they have evolved and focused on support elements of their particular expertise in the agricultural plan and point out ADC's niche in those support elements.

If the goal of this is to support agricultural, then another plan is not needed. What is needed is a recognition that the necessary elements have been identified over and over again in the past 4 decades in at least 9 plans already. Identifying the existing institutions with the expertise to implement the various actions needed in the existing plan and properly funding those actions in a prioritized manner will go along way to ensure the viability of agriculture in Hawaii.

This may not exactly fit the demands of this legislative request but it certainly would effectively help to move agriculture in Hawaii to a more sustainable position in the economy.



August 15, 2006

Mr. Ken Takayama, Acting Director
Legislative Reference Bureau (LRB)
State of Hawaii, State Capitol
Honolulu, HI 96813

RE: Agribusiness Development Corporation Study

HC&S appreciates this opportunity to provide input relating to the Agribusiness Development Corporation.

Role of ADC

As various plantations within the sugar industry opted to close their doors in the 1980s, leaders of the sugar industry, along with the Department of Agriculture recognized the void that was about to occur. It was acknowledged that the landowners of lands leased by the plantations to be closed did not have the capacity to manage the infrastructure on their lands nor did not have the agricultural background needed to keep the lands in productive use. HDOA and HSPA together developed the vision of the Agribusiness Development Corporation(ADC). It was created, with an intent to facilitate the orderly transition of plantation systems to the public sector or others that could manage these extensive systems efficiently. It was also intended that ADC would assist new users of this infrastructure to occupy the vacant agricultural lands as soon as possible. The often onerous processes associated with government were recognized as a deterrent to this transition so ADC was designed to operate OUTSIDE of the traditional government process. It also was provided authorities that would facilitate rapid action to ensure that existing infrastructures would not undergo a decline and new businesses could be put into place.

Relationship to HDOA, CTAHR, HFBF and other agricultural organizations

Advocating for land and water resources and seeking extramural funding for agribusiness development should be the primary role of ADC. While collaborating with the HDOA and other government agencies, ADC was not meant be a part of a Department. This would place it within the bureaucratic system resulting in procedural delays in direct conflict with the original intent of the organization. It is expected that HDOA, DBEDT and other government agencies would support the efforts of ADC. Similarly, CTAHR, HFBF and other agricultural organizations would provide support to facilitate the actions of ADC. All should have and act on a shared vision of a stronger diversified agricultural industry in Hawaii.

Similar to the function of the Consumer Advocate on behalf of the public in various matters, ADC should be the advocate for agriculture. If Hawaii is serious about reaching a level of self sustainability, agriculture must be a critical industry. If so, it is appropriate that this role be established.

Recommendations to improve ADC

While the vision of ADC was adopted by the legislative body and enacted by the Administration, this vision became the equivalent of an unfunded mandate. Insufficient funding to obtain the needed leadership and structure to carryout the mandate was not enacted.

The lack of adequate leadership resulted in its' inability to carryout its' initial task of preparing an agribusiness development strategy that would define and seek funds to carryout the original vision.

Funding to provide for good leadership and staffing of the organization is critical. Realistic timelines for accomplishing measures along with support from related agencies and organizations will improve ADC. A process of accountability to the Legislature, regular review of the Plan to ensure its relevance and assurance of long term support is also essential.

Elements necessary for the Hawaii Agribusiness Plan

Affordable land and water are key elements for successful farming. However, setting aside land without assurance of viable farming operations is not reasonable. Therefore, the Plan must include what types of agricultural enterprises are deemed to be critical for Hawaii and what factors are important to ensure viable enterprises.

At the time of ADC's creation, traditional agricultural operations that produced food and fiber was the area of focus. Local production to reduce import substitution was the goal mainly from the economic standpoint. Times have changed and the State may have other priorities. For example, agriculture is seen as a source of renewable energy. Critical factors that support affordable and reliable energy sytems should be identified and included within the Plan.

Hawaii's low unemployment status requires that labor and its associated issues such as housing must be addressed within the Plan. A plan of worker and entrepreneurial training of agribusiness personnel to take advantage of the latest technologies must be included.

Financing is critical, especially of new and high risk operations. ADC should operate as an entity that seeks Federal Programs and other extramural funds that can be provided to new and expanding agribusiness entities in the form of low interest loans or grants. Stable, long term funding should be a goal.

Mr. Ken Takayama, Acting Director
Page 3
August 15, 2006

The size of agricultural operations make critical mass for optimum productivity often difficult to achieve. Synergistic relationships between entities within the industry should be identified and cooperative systems developed to achieve productivity. Transportation, purchasing and R&D efforts fall within this category. The Plan should identify these systems and implementation plans to achieve the synergy.

While these are components of a good plan, many plans have been developed in the past and many are still relevant. Preparing a new Plan may not be what is needed ...rather implementation of an existing plan.

Proposed legislation

Successful implementation of Act 183, Important Agricultural Lands will require the same type of action within the original vision of ADC. The real future of ADC may lie in its' role as the implementing body to carryout the measures identified to ensure viable agricultural operations on Important Agricultural Lands.

Thank you for this opportunity to provide our opinion on this matter. If there are any questions, please contact Mae Nakahata at (808) 877-6967.

Sincerely,

G. Stephen Holaday
Plantation General Manager



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Waimanalo Agricultural Association

August 12, 2006

Ken H. Takayama
Acting Director
Legislative Reference Bureau
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Takayama:

The Waimanalo Agricultural Association appreciates your attempting to include us in your survey. Too many times we learn of projects after the fact and fail to participate in the planning phases of new upcoming projects. This will help us keep our membership informed as to what to expect in the future.

We discussed your letter at our monthly meeting and we only have one suggestion that needs to be addressed so far. Is it possible to work on a program concerning water meters? To get a new 2" water meter installed on a new lot would cost upwards of \$60,000. It would be beneficial to all farms if ADC could work on some kind of assistance for a new farm to help alleviate a lot of the starting cost in developing their lots.

Mahalo,

Clifford Migita
President WAA



Hawaii Cattlemen's Council, Inc.

64-957 Mamalahoa Hwy.

Kamuela, Hawaii 96743

Ph. (808) 885-5599 Fax: (808) 887-1607

August 15, 2006

Mr. Ken H. Takayama
Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Dear Mr. Takayama,

Re: Agribusiness Development Corporation Study

Thank you for your July 26, 2006 letter seeking input from the Hawaii Cattlemen's Council with respect to the five points outlined therein. We will discuss them collectively.

Over the 12 years or so since the ADC was formed, there has been little association between ADC and the cattle producers in the State. Our perspective on this matter is therefore more as a member of the broader ag community than as an ag industry with a direct involvement with ADC.

It is our understanding that ADC was basically created to facilitate the conversion of some 77,000 acres of former plantation acreage back into other ag uses. It is also our understanding that in dealing with these lands and their use and disposition that ADC was intended to be substantially less entangled with the customary rules and regulations that govern and limit other governmental agencies. This could all be good and worthwhile if such an agency could, in fact, be allowed to manage more of our State's ag lands with greater latitude than now exists in matters such as:

- (a) The granting of financeable, long-term licenses or leases to multiple ag users of a single, legal parcel or TMK;
- (b) The subdivision of such parcels where necessary but without the customarily excessive standard subdivision conditions and improvements;
- (c) The selection of tenants on a negotiated or "best qualified to do business" basis as exists in the private sector when land is leased or managed between two private parties; and
- (d) The management of water and infrastructure systems like a business.

Along similar lines, the Hawaii Cattlemen's Council has been supportive of the shift of authority and responsibility for the leasing of pastureland from DLNR to DoA. The rationale is that DoA by its fundamental mission and focus better understands ag as an

Mr. Ken H. Takayama
August 8, 2006
Page 2

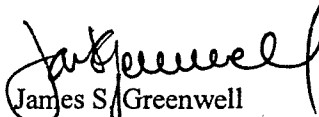
advocate for ag should therefore logically be the most appropriate and knowledgeable State agency to administer the State's ag lands.

Similarly, the concept of having an entity like ADC that could take over large tracts of ag land and ag infrastructure and manage them in a business-like fashion under the auspices of the DoA seems to still have merit. What may be needed is to give ADC under DoA more management and policy making authority, freedom and importantly the funding resources to do their job as was originally intended.

We do not have any proposed legislation or other suggestions to offer at this time. Thank you for seeking our input.

Sincerely,

HAWAII CATTLEMEN'S COUNCIL


James S. Greenwell
President

JSG:sm

331 Ihe Place
Kula, HI 96790
Sept. 6, 2006

Ken H. Takayama
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Dear Mr. Takayama,

I am writing in reference to your request for information regarding the operations of the Agribusiness Development Corporation (ADC). As you explained, this information will be used to help you design your report back to the legislature as to what should be included in the Hawaii Agribusiness Plan.

First, I want to apologize for my late response to your bureau, I was traveling a good amount of the time when this letter came, and I am sorry for getting my response to you three weeks late.

I have had an opportunity to read several other responses from our board members, and I concur with most of the comments. The main point I would like to make with this letter, is that the Agriculture community does not need overlapping programs or studies, what we need instead, are agencies that have clear cut missions and a solid track record for action in helping preserve agriculture in Hawaii. As a farmer myself, I have a deep desire to see farming continue in our state.

One of the main missions of ADC when it was established was to assist agricultural enterprises to facilitate the transition of agricultural infrastructure from plantation operations into other agricultural enterprises. This is what ADC has done and has done well. From the Waiahole ditch system, to the state lands left vacant by Gay and Robinson sugar company in Kekaha, Kauai to the potential new projects of managing the entire Waihawa ditch system on Oahu, Kau water on the Big Island, and the East Kauai Irrigation System, ADC has been able to save the water systems and put farmers on the land. This is the forte' of ADC—managing water systems and ag land. The US Navy has even contracted ADC to manage the ditches and drainage problems for their facility in Barking Sands which is in the Kekaha area on Kauai. Because of the competent work of ADC and its dedicated board, approximately 12,500 acres of ag land have been utilized by farms. All of these lands and water systems were at risk of being left fallow.

I believe that agriculture land and water management should be the primary focus of ADC and ADC should be given the resources to continue this important work. To do this, ADC needs the following:

- The ability and resources to hire project managers to focus on the huge projects listed above. ADC has only three positions, an executive director, and administrative services officer, and a secretary. The current work load of the staff is beyond capacity, and more projects are being proposed. ADC will have to turn away these projects unless we get approval for more positions—particularly project managers.
- Our procurement exemption status needs to be restored by the legislature. Since this exemption was taken away by Act 216, SLH 2004 ADC has been severely crippled in being able to rapidly respond to water system emergencies brought on by storms and flooding etc. If we are going to do the job the way it needs to be done—ADC needs to have the ability to hire contractors in a quick and decisive manner.
- ADC has a very competent and hard –working board. It is not uncommon for board members to attend three meetings per month. I believe that the requirement for ADC projects to ALSO be approved by the Board of Agriculture should be eliminated. This is redundant, and an overlap of effort that is not necessary.

The following is what I think ADC should NOT be involved in or responsible for:

- Assisting farmers with marketing efforts. ADC has no expertise on its staff for this kind of program, and would have to subcontract it out. Currently the Dept. of Agriculture Development Division works in this area on behalf of the farms. They do not have enough resources to be as effective as they could be, but they are better suited to handle this function than ADC.
- Assisting farmers with financial programs. HDOA has an agricultural loan division that works very well for farmers. ADC does not need to overlap with this.
- Assisting former sugar workers transition to work on other farms. This is no longer an issue, since the farmers of this state are experiencing a severe labor shortage.

The last point I would like to make, is when you are designing this Hawaii agribusiness plan, please take into account that much of the work asked for by the legislature has already been completed by or is being worked on by other entities. I ask that you do not ask us to engage in a duplication of effort. I ask that you consider the following studies in your decision:

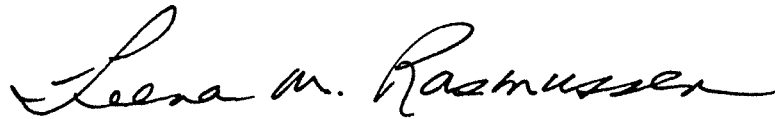
- Act 183, SLH 2005, the important Ag Land legislation required the counties to identify and map agricultural lands and water systems. This is a very comprehensive process being worked on now by the counties. Any further requirement for ADC to engage in this would be a duplication of efforts.
- The agriculture Resource Management Division of the HDOA has completed Phase I and II of the Agricultural Water Use and Development Plan (AWUDP). This plan identifies and describes many major irrigation systems state-wide, including both private and public systems.

- The Hawaii Farm Bureau Federation completed a very comprehensive plan titled "A Strategic Plan for Hawaii's Agriculture." Many of the elements in HAP were thoroughly discussed in the HFBB plan.

We urge the LRB to look at these plans and studies in detail, and avoid a duplication of effort. Resources are too scarce to engage in this work all over again.

Thank-you for your consideration of my comments. Please feel free to call me if you have further questions.

Sincerely,

A handwritten signature in cursive script that reads "Teena M. Rasmussen". The signature is fluid and elegant, with a long, sweeping underline.

Teena M. Rasmussen, Chairperson
Agribusiness Development Corporation

August 13, 2006

Mr. Ken H. Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
415 South Beretania Street
Honolulu, HI 96813

Dear Mr. Takayama:

Re: Agribusiness Development Corporation Study

As a member of ADC's board of directors for about a year and a half, a couple of comments need to be made before I answer your questions. First, the staff is very small, very good, but very small. Next, I believe ADC was first set up with the intent of being able to work faster than other State departments. Unfortunately, our hiring and purchasing process is the same as all the other State departments which is, I'm sure you are aware, very cumbersome. Added to that, we must use a deputy AG to review all our contracts. While the deputy AG we have been assigned is very good, our work has been given a very low priority and we wait an unreasonable time for her review. I believe we are required to pay a percentage of her salary, and we really get a substantially less percentage of her time. The good news is that the members of the board are a well rounded group, many of whom are directly involved in ag work and they bring much knowledge to the meetings.

Comments to your specific questions are as follows:

1. Your understanding or perception as to what the role of the ADC is or should be to the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations.

When your staff and many of the important parts of your work are severely limited (as discussed above), one has to decide what is the most important, and do the best job you can with that issue. Of course, there are many organizations we would like to have more contact with but we have been responding to situations mainly caused by the closing of sugar and this has kept us busy and focused particularly because they are not simple issues, but complex ones that require a lot of staff time to ferret out the details

2. Any recommendations that you may offer to improve the ADC in its performance of its responsibilities.

As mentioned above, allow us to contract with a private attorney and allow us to hire more employees. I am sure this would be the response of many of the State agencies, but as a board member who comes from the private sector, we really do need a few more employees. I believe our Executive Director is doing a fine job, but needs help.

3. Identification of elements necessary for the Hawaii agribusiness plan and any reasons supporting this.

It is my understanding that this plan has these parts:

(1) An inventory of agricultural lands with suitable adequate water resources that are or will become available due to the downsizing of the sugar and pineapple industries that can be used to meet present and future agricultural production needs;

This is not necessary as important agricultural lands are being identified by other governmental agencies. Additionally, we are responding to several situations regarding water availability at this time

(2) An inventory of agricultural infrastructure that will be abandoned by sugar and pineapple industries such as irrigation systems, drainage systems, processing facilities, and other accessory facilities;

The Hawaii Department of Agriculture (HDOA) is already working on the Agricultural Water Use and Development Plan.

(3) An analysis of imported agricultural products and the potential for increasing local production to replace imported products in a manner that complements existing local producers and increases Hawaii's agricultural self-sufficiency;

Of course, this is important, and needs to be done, but our present staffing does not allow such work to be done at this time.

(4) Alternatives in the establishment of sound financial programs to promote the development of diversified agriculture;

Because this is being taken care of by the present HDOA ag loan program, we have chose not to take on additional responsibilities and, in stead, focused on other issues before us.

(5) Feasible strategies for the promotion, marketing, and distribution of Hawaii agricultural products in local, national, and international markets;

Much can be done here as it is always good to have strategies to increase ag business.

(6) Programs to promote and facilitate the absorbing of displaced agricultural workers into alternative agricultural enterprises;

We believe this is not the problem that was envisioned when the original act was passed, as many other programs have been working on this and we currently have a shortage of workers in ag.

(7) Strategies to insure the provision of adequate air and surface transportation services and supporting facilities to support the agricultural industry in meeting local, national, and international market needs;

This issue is very important one to farmers. I believe the super ferry

will help because it will bring competition to this needed service.

(8) Proposals to improve the gathering of data and the timely presentation of information on market demands and trends that can be used to plan future harvests and production;

This is important work, but, I believe it is being done well by the Hawaii Ag Statistics Service so, we have not duplicated it.

(9) Strategies for federal and state legislative actions that will promote the development and enhancement of Hawaii's agricultural industries.

We will work on things that we would like to change or suggest, and after approval of the HDOA, will present them to the legislature.

4. Any proposed legislation that may assist ADC in its above-stated mandate.

+ I believe we are an efficient organization but we do need to increase our staff, not by a lot, but by a few.

+ We could streamline our work by allowing our board of directors to approve projects without further approvals required.

+ We could work better and more efficiently if we could do our own purchasing, without the normal state process.

+ We also could work better and more efficiently, if we could use outside counsel. This would allow us to produce and respond quicker to the many documents we have to deal with.

+ Given the fact that some time has passed since the original act that created ADC, and the present make up of the board (with many industry knowledgeable people) perhaps we could prepare a better list of goals for ADC.

5. Any other suggestions as to how the Bureau may more effectively complete this study.

First of all, it is nice to be asked this question. If you would like to have a time to talk in person, perhaps you could schedule us after

one of our board meetings.

Sincerely,

A handwritten signature in black ink that reads "Bobby Cooper". The signature is fluid and cursive, with the first name "Bobby" and last name "Cooper" clearly distinguishable.

Robert E. Cooper
Board member for Hilo

486-B Akolea Road
Hilo, HI 96720
Ph. 808-935-0253
Fax 808-961-9113

Robert Osgood
47-775 Ahilama Rd.
Kaneohe, HI 96744

August 17, 2006

Mr. Ken H. Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Dear Mr. Takayama:

Thank you for including me as a participant in the review of the Agribusiness Development Corporation as mandated by the 2006 Hawaii State Legislature.

My comments are provided below

1. Your understanding or perception as to what the role of the ADC is or should be to the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations.

At present the ADC has resources to maintain and operate the Waiahole irrigation system, the Kekaha Ditch and associated State lands, and a few additional projects according to its mandate. I believe these projects should be operated at a profit with profits placed in a secure fund to cover unforeseen repairs to the irrigation systems. I don't see that much interaction with the UH CTAHR, Farm Bureau and other Agricultural organizations is necessary. The interactions should be with those who are interested in using the facilities operated by ADC acting as a stand-alone corporation. Interaction with the DOA is necessary and desirable.

2. Any recommendations that you may offer to improve the ADC in its performance of its responsibilities.

Additional former plantation irrigation systems including management of state lands should come under the purview of the ADC. I recommend against expanding the responsibility of ADC to do such tasks as developing agricultural plans, marketing of agricultural products, and providing agricultural loans. I

recommend against having the ADC obtain responsibility for the State Agricultural parks. This should remain with the DOA.

3. *Identification of elements necessary for the Hawaii agribusiness plan and any reasons supporting this.*

(1) An inventory of agricultural lands with suitable adequate water resources that are or will become available due to the downsizing of the sugar and pineapple industries that can be used to meet present and future agricultural production needs;

Not necessary as ADC function since this mission is underway by others.

(2) An inventory of agricultural infrastructure that will be abandoned by sugar and pineapple industries such as irrigation systems, drainage systems, processing facilities, and other accessory facilities;

If not being done already, this would be a valid task for ADC since ADC may be called to manage these systems and facilities.

(3) An analysis of imported agricultural products and the potential for increasing local production to replace imported products in a manner that complements existing local producers and increases Hawaii's agricultural self-sufficiency;

This is an important activity but I don't see it as a function of ADC.

(4) Alternatives in the establishment of sound financial programs to promote the development of diversified agriculture;

Should be left to commercial banks and DOA Ag. loan programs.

(5) Feasible strategies for the promotion, marketing, and distribution of Hawaii agricultural products in local, national, and international markets;

Good activity but I don't see this as a function of ADC

(6) Programs to promote and facilitate the absorbing of displaced agricultural workers into alternative agricultural enterprises;

Not necessary. Should let market take care of this issue.

(7) Strategies to insure the provision of adequate air and surface transportation services and supporting facilities to support the agricultural industry in meeting local, national, and international market needs;

Important activity but I don't see this as a function of ADC.

(8) Proposals to improve the gathering of data and the timely presentation of information on market demands and trends that can be used to plan future harvests and production;

This is already being done by the DOA and should not be an ADC function.

(9) Strategies for federal and state legislative actions that will promote the development and enhancement of Hawaii's agricultural industries.

Important, but not recommended as an ADC function.

3. *Any proposed legislation that may assist ADC in its above-stated mandate.*

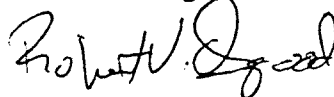
- Protection of ADC funds collected from clients that may be required for timely emergency repairs to irrigation and hydro electric systems.
-
- Increase ADC staffing level and funding as more responsibilities are added

5. *Any other suggestions as to how the Bureau may more effectively complete this study.*

My recommendation is to keep the ADC as a provider of irrigation water and hydro power and not burden it with additional tasks such as developing agricultural plans, conducting marketing studies and providing financial services. There are many additional failing irrigation systems that need attention and that should come under ADC management. Leasing and management of additional state agricultural lands but not including state agricultural parks is recommended.

Sincerely,

Robert V. Osgood



Robert Sutherland
RR-1 Box 751-D
Kula, HI 96790

August 14, 2006

Mr. Ken H. Takayama, Acting Director
Legislative Reference Bureau
State of Hawaii
State Capitol
Honolulu, HI 96813

Dear Mr. Takayama:

Re: Agribusiness Development Corporation Study

Thank you for including me as a stakeholder to address Act 267 of 2006.

My understanding is that the Agribusiness Development Corporation (ADC) has not submitted the Hawaii Agribusiness Plan (HAP) to the legislature mainly due to the lack of resources and the realization that many agricultural plans had already been prepared through the years. Instead of spending more money on another ag plan, I would rather see resources being spent on implement of some of the existing plans.

Comments to your specific questions are as follows:

1. Your understanding or perception as to what the role of the ADC is or should be to the agricultural industry and, particularly, in relation to the Department of Agriculture, College of Tropical Agriculture and Human Resources, Hawaii Farm Bureau Federation, and other agricultural agencies and service organizations.

Due to limited resources, I believe ADC should focus on the preservation of agricultural infrastructure abandoned by former plantations and the keeping of large tracts of land in active agriculture. ADC should concentrate on helping with transitional issues.

2. Any recommendations that you may offer to improve the ADC in its performance of its responsibilities.

ADC is under funded and understaffed. Increasing ADC's staffing level will be an important first step.

3. Identification of elements necessary for the Hawaii agribusiness plan and any reasons supporting this.

(1) An inventory of agricultural lands with suitable adequate water resources that are or will become available due to the downsizing of the sugar and pineapple industries that can be used to meet present and future agricultural production needs;

No. This is not necessary as important agricultural lands are being identified.

(2) An inventory of agricultural infrastructure that will be abandoned by sugar and pineapple industries such as irrigation systems, drainage systems, processing facilities, and other accessory facilities;

No. This is not necessary as the Hawaii Department of Agriculture (HDOA) is working on the Agricultural Water Use and Development Plan.

(3) An analysis of imported agricultural products and the potential for increasing local production to replace imported products in a manner that complements existing local producers and increases Hawaii's agricultural self-sufficiency;

Yes, this is an important element and should be included in the HAP.

(4) Alternatives in the establishment of sound financial programs to promote the development of diversified agriculture;

No. This element is not necessary as HDOA's Ag Loan program could cover most of the farmers' needs.

(5) Feasible strategies for the promotion, marketing, and distribution of Hawaii agricultural products in local, national, and international markets;

Yes, it is always good to have strategies to increase our business.

(6) Programs to promote and facilitate the absorbing of displaced agricultural workers into alternative agricultural enterprises;

No. This is not necessary as currently there is a severe labor shortage across the state.

(7) Strategies to insure the provision of adequate air and surface transportation services and supporting facilities to support the agricultural industry in meeting local, national, and international market needs;

Yes, transportation is very important for agricultural producers.

(8) Proposals to improve the gathering of data and the timely presentation of information on market demands and trends that can be used to plan future harvests and production;

No, this is not necessary as the Hawaii Agricultural Statistics Services is already doing most of the work.

(9) Strategies for federal and state legislative actions that will promote the development and enhancement of Hawaii's agricultural industries.

Yes.

4. Any proposed legislation that may assist ADC in its above-stated mandate.

- Appropriate funding for ADC to prepare the Hawaii Agribusiness Plan
- Increase ADC staffing level.
- Eliminate the need for the Board of Agriculture to approve projects that have been already approved by the ADC Board of Directors.
- Restore ADCs procurement exemption status.
- Instead of following the 1994 legislation, have ADC come up with the elements necessary for the Hawaii Agribusiness Plan.

5. *Any other suggestions as to how the Bureau may more effectively complete this study.*

None at this time.

Sincerely,

A handwritten signature in black ink, reading "Robert A. Sutherland". The signature is written in a cursive style with a large, stylized "S" at the end.

Robert Sutherland

APPENDIX E

ADC Board of Directors July 2006

Mr. Wayne K Katayama
Kilauea Agronomics, Inc.
P.O. Box 80
Kilauea, Hawaii 96754

Dr. Robert V. Osgood
47-775 Ahilama Road
Kaneohe, Hawaii 96744

Ms. Teena M. Rasmussen
Paradise Flowers
331 Ihe Place
Kula, Hawaii 96790

Mr. Robert Sutherland
RR- 1, Box 751-D
Kula, Hawaii 96790

Ms. Susan Harada
936A 12th Avenue
Honolulu, Hawaii 96816

Mr. Robert E. Cooper
486-B Akolea Road
Hilo, Hawaii 96720

As of July 2006, there are 2 vacancies (Hawaii County and At-Large)

Ex-Officio Members:

Mr. Dean Matsukawa (representing Chair of the DOA)
Ag Loan Division
1428 South King Street
Honolulu, HI 96814

Mr. Abe Mitsuda (representing Director of DBEDT)
Office of Planning
P.O. Box 2359
Honolulu, HI 96804

Mr. Robert Masuda (representing Chair of the DLNR)
P.O. Box 621
Honolulu, HI 96809

AGRIBUSINESS DEVELOPMENT CORPORATION

ANNUAL REPORT

and

PROGRESS REPORT

**In Response to:
House Concurrent Resolution No. 72, Senate Draft 1**

**Prepared For The
NINETEENTH LEGISLATURE
STATE OF HAWAII**

**STATE OF HAWAII
DEC 15 1997
LEGISLATIVE REFERENCE BUREAU**

December 1997

AGRIBUSINESS DEVELOPMENT CORPORATION

BOARD OF DIRECTORS

Robert "Lindy" Sutherland - Maui
Chair

Jack Keppeler - Oahu
Vice Chair
Chair - Administrative Subcommittee

Paul Otani - Maui

Allan Smith - Kauai
Chair - Technical/Projects Subcommittee

Yoshito Takamine - Hawaii

Judith Williams - Kauai
Chair - Marketing Subcommittee

David Wong, Jr. - Oahu

James Nakatani
Department of Agriculture

Seiji Naya
Department of Business, Economic
Development and Tourism

Michael Wilson
Department of Land & Natural Resources

Staff:

Bert Hatton - Executive Director
Anne Lo-Shimazu - Program Analyst/ASO
Cindy Doi - Executive Secretary

Address:

235 South Beretania, Room 303
Honolulu, Hawaii 96813
Telephone: 808-586-0186
Facsimile: 808-586-0189

Table of Contents

- 1.0 Executive Summary**
- 2.0 Overview**
- 3.0 Projects**
 - 3.1 Navy West Loch Project**
 - 3.2 Waipio Peninsula**
 - 3.3 Lower Hamakua Ditch**
 - 3.4 Freight Consolidation and Redistribution Centers**
 - 3.5 Waiahole**
 - 3.6 Reparcelization of Agriculturally Zoned Lands**
- 4.0 Progress Report**
- 5.0 Draft Outline of Hawaii's Agribusiness Plan**

1.0 Executive Summary

The Agribusiness Development Corporation (ADC) internally reorganized during 1997 to become more project focused. This reorganization has involved the creation of working Board subcommittees consisting of an Administrative Subcommittee, a Technical/Projects Subcommittee and a Marketing Subcommittee. It has also felt the need to formulate a process to define, prioritize and act on projects that can have significant impact for Hawaii's agricultural businesses.

The agricultural industry in the state continues to grow despite continued shrinkage of the sugarcane industry. The statistics produced by the Department of Agriculture (DOA) for 1996 show diversified agricultural farm values increasing to nearly \$300 million, sugarcane falling to just over \$100 million and pineapple increasing to just under \$100 million.

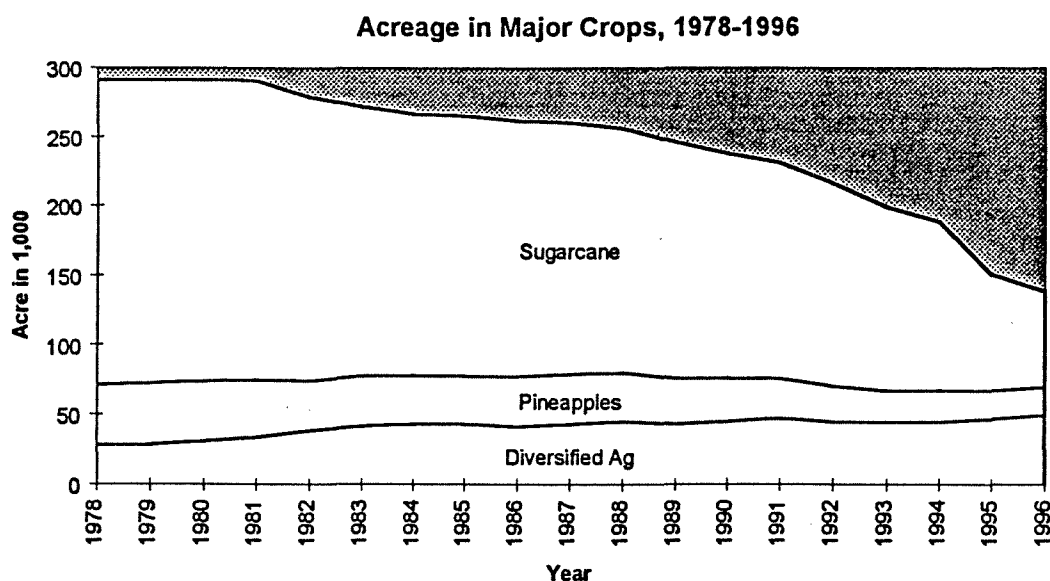
The value of diversified agriculture has increased in recent times and is expected to grow well into the next century. One of the significant opportunities for this growth is the increase in good agricultural lands, water and other infrastructure that has and is becoming available from the shrinkage in the sugarcane industry. The challenge is in the reformation, reorganization and reuse of these lands and infrastructure for agribusinesses which have identified specific market needs and developed viable plans.

In response to House Concurrent Resolution No. 72, S.D.1, and pursuant to Chapter 163D, HRS, the ADC has completed a draft of an outline of the Hawaii Agribusiness Plan which has been incorporated into this annual report.

2.0 Overview

After losing three plantations in 1995 and 1996, the sugarcane industry did not experience a further decline in 1997. However, as a result of the closing of six plantations during the 1990's, there were 94,000 acres less arable lands committed to sugarcane with only modest gains in acreage planted in other types of crops.

Similarly, after going through several years of steady decline, the pineapple industry seems to have stabilized showing slight increase in planting in 1996. While the 1997 results have not been tabulated, expectations are to see a slow but continuing absorption of these acreages released from the sugarcane industry by other diversified crops as illustrated by the following chart showing a breakdown of total acreage in major crops during the last 18 years. This absorption may be constrained if existing infrastructure can not be preserved and utilized in the transition.

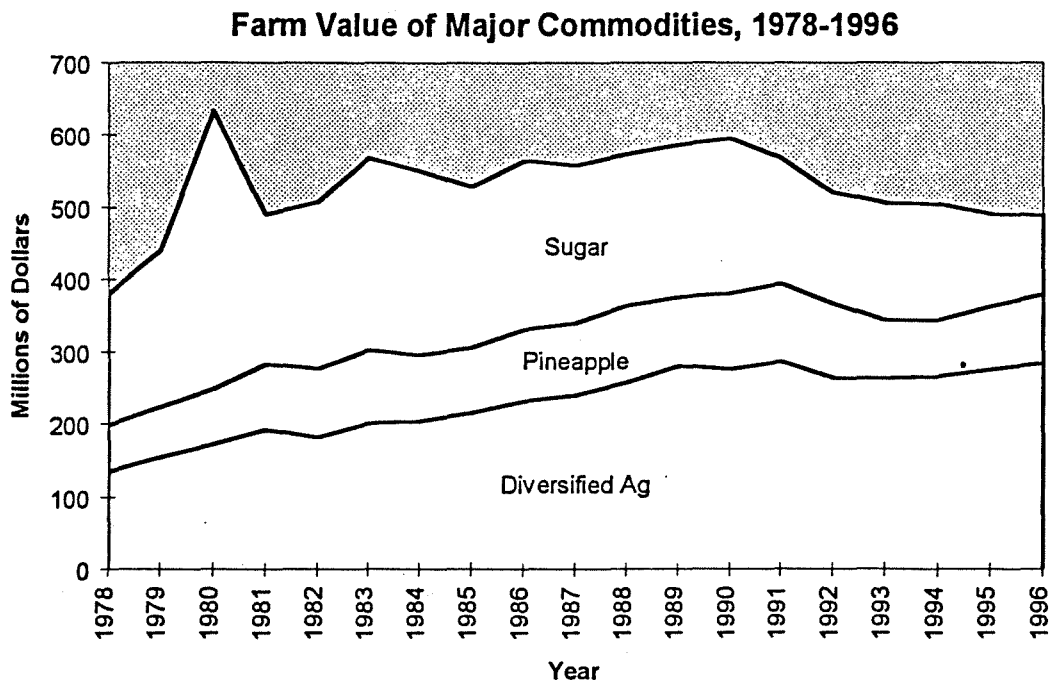


Together with the release of the land resource, we are also experiencing idling and/or underutilization of other agricultural related resources such as water delivery systems as well as the plantation roadways and harbor facilities. By estimate, nearly 200 mgd of water have become available since 1990. These resources must be preserved and utilized as soon as possible.

In its strategic plan entitled, "Hawaii's Agriculture: 2000 and Beyond," the DOA succinctly stated as its overall vision is to become "the agricultural center of the Pacific for production, marketing, and technology transfer." The plan also envisions an agriculture

industry in Hawaii that is not only competitive in the global market, but also represents a growth opportunity for entrepreneurs in Hawaii.

To meet the challenges of globalization, Hawaii must seize this unprecedented opportunity to reinvent an agricultural industry empowered by farmers with an entrepreneurial market-driven philosophy. The DOA will play a role in this transformation. In fact, the short term goal for the Department as stated in its strategic plan is to increase the value of non-sugarcane crops by \$50 to \$100 million by the year 2000. That growth, if achieved, will represent a 20% increase in the size of the overall industry. This growth is already becoming evident. Total output by diversified ag has experienced a \$10 million increase each year during 1995 and 1996.



The role of the ADC will continue to complement those efforts provided by the DOA in offering a vehicle by which this transition can be accomplished. The ADC has in the past, worked with dislocated farmers in providing assistance for their transition to farming operations. Looking ahead, ADC must focus on projects identified as having the greatest needs and impacts on the industry. This is important simply for practical as well as for strategic reasons. The size of this program requires it to maximize its human capital. More importantly, the role of ADC is to bring the public and the private interests together on a project by project basis and to ensure critical infrastructure is protected and available for productive use as soon as possible. This can only be accomplished by selecting projects that will facilitate and promote agribusiness activities by ensuring vital elements such as land and water delivery systems, roadways as well as other necessary infrastructure are available in a productive condition.

The following is a list of which projects have either completed or have been identified as having high potential economic benefits to the industry.

1. Navy West Loch Project
2. Waipio Peninsula
3. Lower Hamakua Ditch
4. Freight Consolidation and Redistribution Centers
5. Waiahole
6. Reparcelizaton of Agriculturally Zoned Lands

A brief description of each one of these projects has been included in the following section.

3.0 Projects

The ADC worked closely with many segments of the diversified agriculture industry. An example of an ADC project involved providing assistance to another farmer to secure 1,000 acres of farmland as well as its start-up capital through obtaining a RETA-H grant. ADC also participated in other projects during this period providing assistance to small agribusiness ventures.

As ADC grows, the number of projects and their complexity increases as well. The ADC Board and staff have recently seen the need for a more disciplined format in the presentation and prioritization of ADC work. Project sheets are being developed for all major projects. These sheets include brief project descriptions, the project status as well as Board action taken on the project. This more structured format is beneficial in communicating project facts and their status to the Board to assist in prioritization of staff effort. The project sheets will also provide the backbone of each annual report prepared by ADC for the legislature in addition to providing revisions and updates to the Hawaii agribusiness plan. The sheets for specific projects will be updated as projects mature, are finished or are dropped.

The project sheets will have status indicators that include:

1. Concept - ADC is in the process of project identification
2. Active - ADC Board has directed staff to expend time and/or resources at some specified level
3. Administration - ADC's involvement in a project is ongoing as in the case of setting up a separate subsidiary or where ADC may be holding a master lease
4. Finished - ADC participation in the project is finished

At any given time, it is anticipated that there will be several projects at each status level. The current status indicators will be expanded if appropriate.

ADC staff time was and will also be spent on other than just project work. Staff and Board time has been and will be spent in staying in touch with the industry through formal and informal meetings and contacts. In addition, ADC has and will play an advisory, technical and advocate role for agriculture in various forums.

3.1 Navy West Loch Project

PROJECT SHEET

Project Name: Navy West Loch Project

Location: Oahu

Project Status: Finished

ADC Board Status: Originally approved expenditure of staff resources

Participants: ADC, Farmer, U.S. Navy, RETA-H Committee & UH-Small Business Development Center

Discussion: The Department of the Navy had issued a request for proposal (RFP) for the agricultural use of approximately 1,000 acres of its West Loch lands formerly leased to Oahu Sugar Company. A bona fide farmer expressed an interest in growing corn for feed and ADC provided assistance in his efforts to obtain the Navy lease, introduced the farmer to the RETA-H committee as well as helped him prepare a successful grant request for \$450,000. ADC initiated contacts with the Navy personnel responsible for issuing the RFP. ADC also worked with the farmer in establishing contacts to secure tentative commitments for marketing his product with segments of the local dairy industry. ADC additionally provided information to other private lending institutions to help the farmer obtain the balance of his financing for the project.

ADC Objective: Consistent with purposes of Chapter 163D, HRS to establish new agribusinesses through various forms of assistance including reuse of plantation infrastructure, obtaining financing and marketing the product.

Time Table: Project started in 1996

3.2 Waipio Peninsula

PROJECT SHEET

Project Name: Waipio Peninsula

Location: Oahu

Project Status: Active

ADC Board Status: Approval to proceed on project including seeking contingent RETA-H funds

Participants: Farming Operators, ADC, United States Navy, City and County of Honolulu, Honolulu Board of Water Supply (BWS), Amfac

Discussion: The Navy owned Waipio peninsula was formerly under lease to Oahu Sugar (an Amfac plantation) where the land was used for reuse of mill wash water in furrow irrigated sugarcane. The mill wash water originated from three pumps known as pump 7 which had a total pumping capacity of 15 mgd. After the water was used for washing sugarcane several times, the mud laden water was transported to the peninsula via the mill siphon. The Navy has been in the process of seeking an agricultural tenant for the property. Several obstacles have existed for a prospective agricultural user to lease the property from the Navy. The most significant problem is the cost of retrofitting pump 7 or developing another water source for the land. The City is also negotiating with the Navy for a soccer field complex on about 200 acres of the land closest to Farrington Highway. Adjacent to the Navy land and proposed soccer complex is the Ted Makalena Golf Course currently using domestic quality water from the BWS at domestic rates. The BWS is continually seeking additional water sources to provide for future needs of Honolulu. Having current and proposed facilities such as the golf course and the proposed soccer complex use alternate non-potable water sources is a major benefit to the BWS and its customers. Additionally, the Navy has water needs for its planned dredging spoils area to be located at the tip of the peninsula.

ADC Objective: ADC has identified complimentary goals among the participants to commonly reuse plantation infrastructure for the efficient benefit of all parties. ADC's specific objective is the profitable agricultural reuse of about 600 acres on the peninsula with inexpensive water provided from a multi-user source.

Time Table: Agricultural occupancy during 1998

3.3 Lower Hamakua Ditch

PROJECT SHEET

Project Name: Lower Hamakua Ditch

Location: Big Island

Project Status: Active

ADC Board Status: Received Board approval for staff to expend time

Participants: Hamakua Soil and Water Conservation District (SWCD), Mauna Kea SWCD, State DOA, Natural Resources Conservation Service/United States Department of Agriculture (NRCS/USDA), ADC

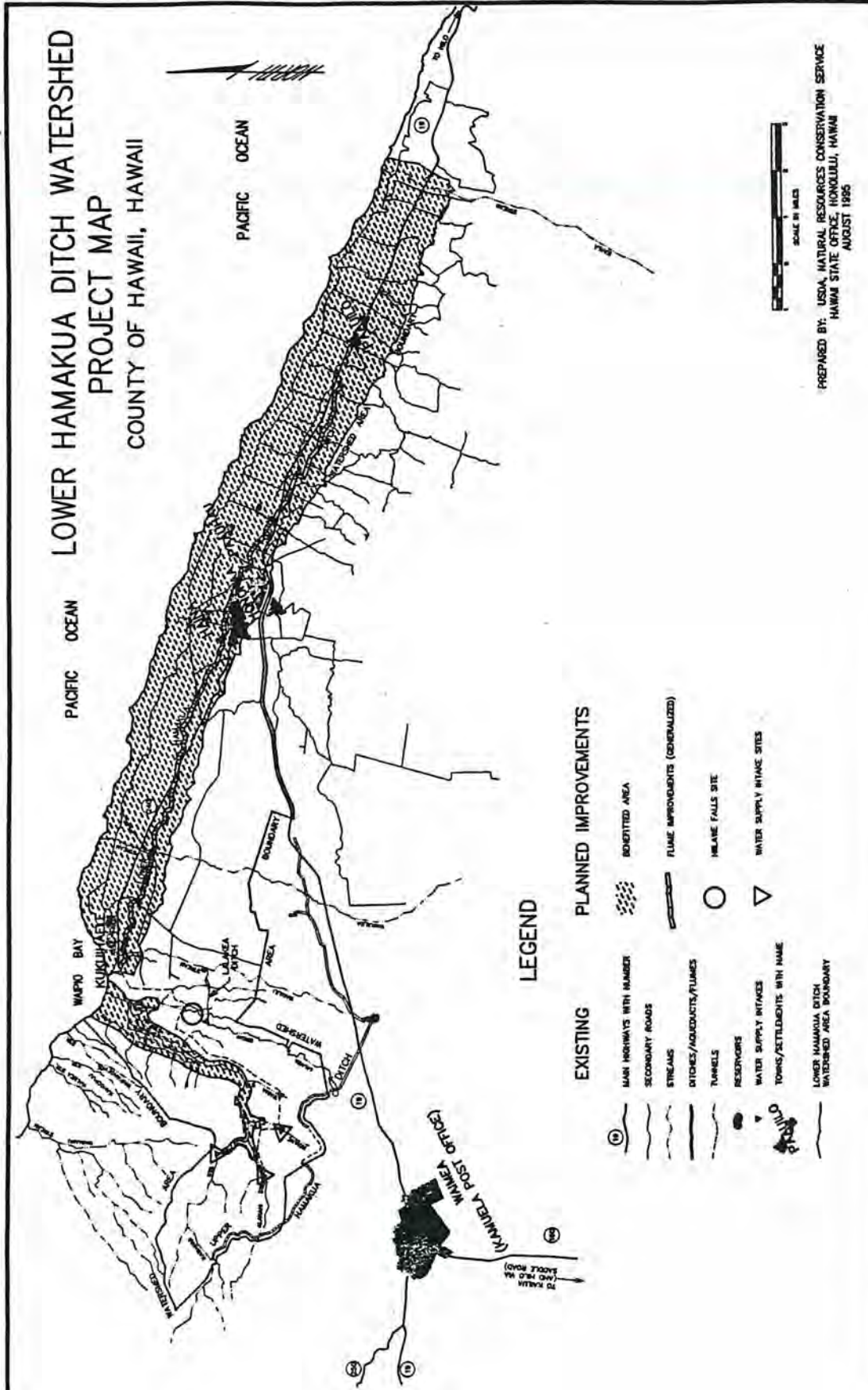
Discussion: The above-mentioned participants (except ADC) have proposed a plan for providing irrigation water to 2,500 acres of cropland and five acres of aquaculture in Hawaii County. It will also provide livestock water on approximately 2,000 acres. The central part of this project is the improvement of the Lower Hamakua Ditch. ADC staff has begun to provide assistance to DOA staff in this matter with an eye to possible utilization of ADC tools to facilitate the purposes of this project.

ADC Objective: ADC's specific objective in participating in this project is the profitable restoration and reuse of plantation infrastructure.

Time Table: Unknown at this time.

Project Exhibit: Attached

LOWER HAMAKUA DITCH WATERSHED
PROJECT MAP
COUNTY OF HAWAII, HAWAII



3.4 Freight Consolidation and Redistribution Centers

PROJECT SHEET

Project Name: Freight Consolidation and Redistribution Centers

Location: Statewide

Project Status: Concept

ADC Board Status: Received Board approval for staff to expend time

Participants: ADC, DOA and others as appropriate

Discussion: In a recent series of meetings with House Agricultural Committee Chair, Merwyn Jones, various commodity and value added product groups have met to discuss concerns regarding their businesses. One fairly common concern that has been expressed is the obvious concern over shipping costs. This is for interisland and out of state transportation of products. At several of the meetings the idea of consolidation of less than full container loads and of the possible benefits of a product redistribution center on the west coast have independently arisen.

ADC Objective: Investigation of the feasibility of a Hawaii consolidation and west coast redistribution center(s).

Time Table: Initial feasibility will take about four months if the sense of the Board is given to proceed. The work will be conducted by ADC staff with other help as may be available. No outside contract work is anticipated at this time.

3.5 Waiahole

PROJECT SHEET

Project Name: Waiahole

Location: Oahu

Project Status: Active

ADC Board Status: Received Board approval for staff to expend time

Participants: System users

Discussion: The recent Preliminary Decision and Order by the Water Commission has led Amfac to cancel the agreement between Waiahole Irrigation Company and the farmers in central Oahu. Amfac has stated that it will continue to provide water on a month to month basis pending a final decision by the Water Commission. (Amfac has implied, however, that it can not wait indefinitely for a final decision to be rendered.) The State has suggested that there may be a strong public interest in the acquisition or control of the system by the State. ADC staff has been asked to assist in this matter as regards to the information about the system and investigating possible ways and means of acquisition.

ADC Objective: ADC's specific objective in participating in this project is the profitable restoration and reuse of plantation infrastructure to benefit new and expanded agribusinesses and the creation of jobs.

Time Table: Not currently definable

3.6 Statewide Project

PROJECT SHEET

Project Name: Reparcelization of Agriculturally Zoned Lands

Location: Statewide

Project Status: Concept

ADC Board Status: Received Board approval for staff to expend time

Participants: Appropriate County Planning Departments and City and County of Honolulu Department of Land Utilization, ADC

Discussion: The current subdivision laws generally have very specific and high cost improvement requirements. These improvement standards are too costly and unnecessary for most farming operations. To encourage large landowners to consider creating ag subdivisions, it has been determined that a new set of standards appropriate for ag subdivisions is beneficial in the long run. It is hoped that these ag subdivisions will encourage farming activities on former sugarcane lands by creating legal transferable interests.

ADC Objective: This becomes part of the strategy for federal, state and local legislative actions that will promote the development of Hawaii's agricultural industries.

Time Table: Pending

AGRIBUSINESS DEVELOPMENT CORPORATION

PROGRESS REPORT

In Response to:

House Concurrent Resolution No. 72, Senate Draft 1

December 1997

4.0 Progress Report on Hawaii Agribusiness Plan

House Concurrent Resolution No. 72, S.D. 1 requests the Agribusiness Development Corporation to develop and implement, pursuant to its statutory responsibilities under Chapter 163D, HRS, a comprehensive plan that promotes new and diversified agriculture in the State. In addition, the resolution requests that ADC report on the progress of its efforts to develop and implement said plan to the Legislature no later than November 30, 1997. Chapter 163D, HRS, also requires ADC to submit an annual report to the Legislature each year. The plan is to be incorporated into the annual report pursuant to Chapter 163D-5(9)(b), HRS.

Section 5.0 of this annual report presents the current draft outline of the plan. Certain sections of the plan have been partially completed while other sections remain in outline format. It is important to understand that this plan must remain flexible to account for the ever-changing environment affecting agriculture in Hawaii. ADC has been receiving comments from many of its primary clients (farmers), decision makers, and related agencies as this plan formulates. The legislature had the foresight to understand that components of this plan would necessarily be subject to revision as stated in Chapter 163D-5(9)(b), HRS.

The plan is formatted by stating ADC's overall mission statement followed by general objectives, strategies and actions within the scope of the mission statement. Following is a discussion of the current operations environment for agriculture in Hawaii. Last, and most important, are the projects which fit into this mission statement; general objectives, strategies and actions; and the operating environment. The projects are the concrete backbone of ADC's output.

MISSION STATEMENT



GENERAL OBJECTIVES STRATEGIES AND ACTIONS



OPERATING ENVIRONMENT



PROJECTS

5.0 Draft Outline for Hawaii Agribusiness Plan

I. Mission Statement

The mission of the Agribusiness Development Corporation (ADC) is to provide leadership and advocacy for the conversion of agribusiness into a dynamic growth industry through the use of financial and other tools enabled by the founding legislation for the pursuit of specific projects to achieve the legislative objectives.

II. Objectives

Objective A: To facilitate in the orderly transition of existing agribusiness resources of land, water and infrastructure as they become available.

Strategy A(1): Preserve, maintain, and improve, where appropriate, existing agricultural infrastructure and resources such as land and water for new or expanded diversified agribusiness enterprises.

Action A (1): Identify and prioritize specific and discrete projects. This will involve taking a leadership role, in cooperation with the ownership entities, end users and other supporting agencies, to achieve economic use of these facilities.

Discussion: It is estimated that close to 100,000 acres of farm land formerly planted in sugarcane and pineapple have been released due to the closure of 6 sugarcane plantations and the pineapple operation on Lanai since 1990. Some of these lands have already been converted to productive use but many remain idle or underutilized. It is also estimated that nearly 200 mgd of surface and pump water previously diverted by the plantations for sugarcane may become available for other crops. Some of this water is already being used for new crops. Recent precedents that have been set, however, may have significant impacts on the future use of these waters. Together with the plantation lands, numerous plantation roadways will require some form of maintenance. Actions should be taken and projects developed to ensure these and other valuable and irreplaceable infrastructure are efficiently utilized to enhance Hawaii's overall economy.

Objective B: To focus on specific marketing analysis for ADC identified projects. To utilize marketing resources of related agencies to complement efforts. This will also include researching various transportation alternatives.

Strategy B(1): Investigate ways and means of improving product distribution for the national and international markets for Hawaii grown and value added projects.

Action B(1): Conduct feasibility studies for Hawaii consolidation and offshore distribution centers.

Discussion: As the industry continues to diversify, many small growers trying to export to other markets are having trouble filling economically sized shipping units. If products from different sources can be pooled, it may achieve a more efficient use of space thus reducing the shipping costs to individual growers. It is anticipated that an offshore distribution facility may reduce the interval between arrival and reaching the market and further reduce transportation costs.

Objective C: To provide the leadership for the development, financing, improvement, or enhancement of agribusiness enterprises.

Strategy C(1): Serve as a vehicle for public/private partnership in providing technical expertise and financial tools to landowners, growers and other stakeholders who may benefit from the partnership.

Action C(1): Apply legislatively enabled financial tools creating opportunities for new and existing agribusiness enterprises.

Discussion: Many believe the future of the agribusiness industry in Hawaii lies in the hands of entrepreneurs. The catalyst for the new agribusiness environment will be provided by forward thinking, business-minded and market-driven men and women. The leaders in this environment can take advantage of the tools and the services provided by the ADC to assist in the formulation, facilitation and the execution of their business strategies.

Objective D: To participate in county, state, and federal legislative initiatives to fulfill the purposes of the ADC.

Strategy D(1): Provide input, advice, and expertise, in cooperation with the Department of Agriculture (DOA) on all agribusiness related issues.

Action D(1): Work with the State Land Use Commission and the appropriate County Agencies to streamline the land use process for the break up of large land parcels for the purposes of creating smaller land parcels for diversified farmers at a reasonable cost.

Discussion: It has been determined that the current land use regulations were designed in an environment where there were concerns over what was deemed excessive growth. The subdivision process can be both time consuming and costly to pursue especially for bona fide agricultural operations. The plantation form of farming will largely be replaced by smaller farming units each growing many different types of crops. This transformation will require a variety of different sized land parcels in a form where leases can be issued or title through leases or fee simple ownership can be transferred and financing can be assured. To create

affordable and economically sized parcels will require more flexibility in timing as well as improvement standards appropriate for true agriculture.

III. Operating Environment

1. Inventory of agricultural lands with water resources released by sugarcane and pineapple since 1990.

Total former sugarcane acreage by plantation:

<u>Island of Oahu</u>	<u>Acres</u>
Oahu Sugar Company	11,500
Waialua Sugar Company	12,000
<u>Island of Hawaii</u>	
Mauna Kea Agribusiness/HPCP	16,400
Ka'u Agribusiness	12,800
Hamakua Sugar Company	28,700
<u>Island of Kauai</u>	
McBryde Sugar Company	8,700
Lihue Plantation Co. (Kealia Section)	3,300
<u>Island of Lanai</u>	
Dole Pineapple	<u>10,000</u>
Total acreage released since 1990	103,400

The lands shown as released from sugarcane and pineapple do not necessarily reflect acreages that are currently available for new agricultural enterprises. The good news is that many of these lands have already seen significant conversion. On Oahu, the former leased lands of Oahu Sugar have, in large part, been converted to new uses including watermelon, seed corn, pineapple, bell peppers, herbs, ethnic vegetables and other crops. Waialua Sugar lands have also seen many start up operations on Castle & Cooke and Bishop Estate lands. The Oahu island lands have some advantages as well as some disadvantages over neighbor island lands. The availability of on-island markets and better export transportation infrastructure is an asset while urbanization pressures, lease terms, and water designation pressures add uncertainty to the Oahu industry.

The "less than good news" is that the neighbor island lands shown reflect mixed results for conversion. Mauna Kea Agribusiness/HPC lands have a reported 200 small leases issued to independent farmers in addition to the macadamia nut, timber, and pasture operations. McBryde lands have seen significant conversion to coffee. The former Hamakua Sugar lands have in large part been leased to PruTimber and discussions are under way regarding additional leases for tree operations on State and County land in the area. Whether or not this additional lease is consummated much land remains open, though not necessarily available, for other diversified ag uses. The above tabulation does not take into account many thousands of acres formerly released from sugarcane or pineapple or thousands which may be on the cusp of being released.

2. Partial inventory of water facilities no longer used for sugarcane since 1990.

Totals in MGD:

<u>Island of Oahu</u>	<u>mgd</u>
Waiahole Irrigation Co./Oahu Sugar	28
Dole/Waialua Sugar Co.	30
 <u>Island of Hawaii</u>	
Hamakua Sugar Co.	30
 <u>Island of Kauai</u>	
Kealia/Anahola	10
McBryde Sugar Co.	<u>95</u>
 Total water	193

The above table is presented to only illustrate the scope of water infrastructure that was associated with some of the former sugarcane operations. The table does not reflect all of the well water nor does it imply portions of the water are not currently being used for productive purposes. Almost all of the systems referred to currently have productive uses of portions of the water from the systems.

All of the water systems in the state do not have equal value. Not all have the same urgency of problems to address. As this plan evolves and matures, it is clear that priorities must be set for action. This version of the plan places initial priority on two of the systems that have major current issues being Waiahole and Lower Hamakua Ditch. In parallel with the land situation discussed above, additional water systems in the state may also be on the cusp of transition.

3. Preliminary initiatives for federal and state legislative actions.

It is becoming evident that the current subdivision laws have created what could be very serious impediments to a new economic order. Most plantation era land parcels are held in big blocks. It was not an issue as long as there is only one farmer. Today, these land parcels are much too big for one user. Each county has an ordinance that prohibits leasing unsubdivided parcels. The current subdivision process as well as their infrastructure requirements are expensive to comply. ADC will work with the individual counties to streamline as well as updating the process to reflect the transformation to a diverse user environment.

IV. List of Projects

a) Waiahole

The Waiahole Irrigation Company is currently operated by Amfac/JMB Hawaii, Inc., its parent organization. The Waiahole Ditch was built in the early 1900's to serve the Oahu Sugar Company's fields located in Central Oahu. Ever since Oahu Sugar Company closed down its sugarcane operation, the water from the Waiahole Ditch has been used mostly by farmers now occupying former Oahu Sugar land. The state's Waiawa prison, Bishop agricultural uses, the Mililani cemetery, Dole agriculture, Mililani small farmers, the Mililani golf course and the partially completed Puu Makakilo golf course are also users of the system. Approximately 28 mgd of water can be transported across the Koolaus to Central Oahu. While the final decision from the Commission of Water Resource Management (CWRM) is still pending regarding the allocation of surface water to the Waiahole Ditch, water continues to be transported through the ditch relying on an interim allocation from the CWRM.

Approximately 10,000 acres of prime agricultural land can potentially be served by Waiahole water supporting many farm operations. The vigorous trajectory of agribusiness starts in the central Oahu plain has been blunted not only by the recent preliminary decision and order by the Water Commission but also by the uncertainty created by the length of time of the decision process and many unresolved issues. The State of Hawaii has been holding preliminary talks with officials of Amfac/JMB to investigate the acquisition of the assets and the rights of Waiahole Irrigation Company. The Waiahole Irrigation Company is a prime example of an ADC project where compelling public and private interests are being served. The details of the negotiations as well as the terms of an acquisition are still unknown, ADC is playing a role by assisting in the discussions with Amfac/JMB and the other leeward interests.

b) Lower Hamakua Ditch

The Lower Hamakua Ditch was completed in 1910 for the purposes of transporting sugarcane to the processing mill as well as to serve as a source of water for the actual processing. With a capacity of 60 mgd, it was later that the water also became

a source of irrigation water for the plantation. Since Hamakua Sugar Company closed down in 1993, the 23.5 mile ditch has been left in a state of disrepair with minimal management oversight in its use. Today, DOA, together with cooperation of the USDA, Natural Resources Conservation Service, has proposed a plan for the restoration of the system and to provide water for 2,500 acres of cropland, five acres of aquaculture as well as livestock water on 2,000 acres. ADC will provide assistance to DOA in this project with the possibility of utilizing ADC tools in the future, if needed. This project is consistent with the purpose of facilitating the transition of agricultural infrastructure from plantation operations into other agricultural enterprises.

c) Waipio Peninsula

The 1,000 acre Waipio Peninsula was once leased to Oahu Sugar for reuse of mill wash water in furrow irrigated sugarcane. The mill wash water originated from three wells known as pump 7 located in the Oahu Sugar mill yard. After the water has been used, it was then transported to the Peninsula for irrigation via siphons. With a capacity of 15 mgd, Pump 7 represents a source of water which can be tapped to benefit the Navy-owned Peninsula as well as any potential users of the Navy farmland. Several other parties may also derive benefits from this project; the City and County of Honolulu who is negotiating with the Navy for a 200 acre soccer complex, the nearby Ted Makalena Golf Course who will benefit by being able to use a less expensive source of water, the Navy who will need this water for its future tenants as well as its planned area for dredge spoils, the BWS by displacing potable water use.

ADC is seeking RETA-H grant money for this project with a target of 1998 occupancy for the agricultural tenant. This project has given ADC the opportunity to work with parties with diverse complimentary goals and in turn play a leadership role in developing and enhancing an agricultural enterprise.

d) Freight Consolidation and Redistribution Centers

It has become apparent recently that the issue of a consolidated transportation facility has always been of interest to the diversified ag community. The concept of the consolidation will bring shipping costs to small growers down by pooling products from different sources to ensure a full container load. Another concept of interest is a U.S. West Coast redistribution center to reduce the time between product arrival and reaching the market. ADC will investigate the feasibility of an implementation of these concepts.

e) Reparcelization of Agriculturally Zoned Lands

Many prime agriculturally-zoned lands are currently held in parcels of well over 1,000 acres in size. It has been determined that land parcels of that size may be too large for the diversified ag farmers. Each county has as part of the land use ordinance, provisions that prohibit leasing a part of a land parcel without first creating a subdivided parcel. But more importantly for creating legally subdivided parcels is to satisfy lenders'

requirements for financing purposes. Current subdivision laws generally have high standards for subdivision improvements. The high costs of these improvements have in the past discourage landowners from creating ag subdivisions as ag lands do not command as high a price or rent as a residential subdivision. It is therefore important that these laws be adapted to reflect the needs of the diversified ag community.

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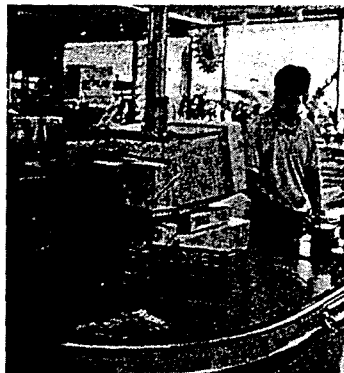
Wilcox, Carol, 1996. "Sugar Water."

APPENDIX G



Quality Assurance Division

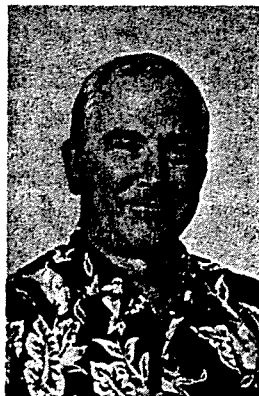
- ♦ Analyzed 204 gasoline samples for octane, Reid Vapor Pressure, density, distillation, water content, and chemical composition. No violations were found for any of the fuel.
- ♦ Tested or calibrated 648 mass standards, 139 of which were rejected or adjusted. Among the standards calibrated were 103 standards which required high precision testing. Also tested were one length and 57 volumetric standards, 14 of which were adjusted.
- ♦ Handled five complaints concerning odometer tampering.
- ♦ Attended National Conference on Weights and Measures Instructor Training on the National Type Evaluation Program given on the U.S. mainland by the National Institute of Standards and Technology (NIST), U.S. Department of Commerce.
- ♦ Attended Handbook 133 Standard Deviation Category 'A' Training, given by NIST. After returning, trainee instructed staff, statewide, on procedures so that the Branch could participate in Milk Project II - A Follow-Up Federal/State Study on the Accuracy of Net Content Labeling of Milk.
- ♦ Attended Instructor Training-Examination Procedure for Price Verification, given by NIST. After returning, trainee and other Oahu inspectors participated in Price Check Follow-Up Survey - A Federal/State Study on the Accuracy of Checkout Scanner Prices.
- ♦ Prepared Annual Laboratory Certification Submittal Report to NIST and Attended Annual Western Regional Assurance Program Meeting which are necessary for certification of the State's laboratory.
- ♦ Operated a booth at the Hawaii Food Industry Association Conference and made presentations at that event and at the State Farm Fair.



Inspector verifying accuracy of checkout scanner, so customers aren't charged more than the posted price.

AGRIBUSINESS

DEVELOPMENT CORPORATION



Bert Hatton
Executive Director

The ADC was established pursuant to Act 264, SLH 1994, to coordinate the development of Hawaii's agricultural industry and facilitate its transition from a dual crop — sugar and pineapple — industry to a diversified, multicrop and animal industry. More specifically, it is responsible for devising means by which arable sugar and pineapple lands and their production infrastructure can be used again by a diversified agricultural industry and for providing marketing assistance that can lead to the development of local, national, and international markets for Hawaii-grown products.

During FY 1998, the ADC worked on six projects approved by its Board of Directors:

- ♦ The most significant of these projects was the completion of the asset-purchase agreement to acquire the assets of the Waiahole Water System pursuant to Act 111, SLH 1998. The assets include: a 25-mile-long system of hard-rock tunnels, lined ditches, and wooden and metal siphons that delivers non-potable water from Windward Oahu to Central and Leeward Oahu, approximately 468 acres of fee-simple conservation land, and an unbroken chain of perpetual easements.

Activities related to the asset-purchase agreement include the following:

Worked closely with the HDOA and the Governor's Office to negotiate the terms of the asset-purchase agreement.

Prepared the financial pro formas for the asset-purchase agreement.



Prepared extensive testimony in strong support of HB 2990, relating to agriculture, which was the legislative vehicle for acquiring the Waiahole Water System and which was signed into law on June 5, 1998, as Act 111, SLH 1998.

Conducted extensive due diligence, with the assistance of the HDOA, the Office of the Attorney General, and the HDLNR, on the quality of title of the assets to be acquired.

Contracted for a phase one environmental site assessment of the easements and leases that makeup the Waiahole Water System.

Conducted a series of meetings with the Kunia Water Cooperative leading to the completion of the Master Agreement for Delivery of Water from the Waiahole Water System.

Prepared the Draft Implementation Plan for the Waiahole Water System and submitted it to the Commission on Water Resource Management.

Made offers of employment to the seven employees of the Waiahole Irrigation Company, Limited, who currently operate and manage the water system. Employment is contingent upon the closing of the asset-purchase agreement.

Deposited into escrow the sum of \$8,500,000, the negotiated price of the assets of the water system.

The five other projects approved by the Board of Directors of the ADC resulted in the following:

◆ **Waipio Peninsula**

The specific objective is the profitable agricultural reuse of about 600 acres on the peninsula by providing inexpensive water for multiple users. The ADC submitted a project proposal to the Rural Economic Transition Assistance-Hawaii (RETA-H) Program requesting \$100,000 in matching funds to promote sustainable regional economic development on lands formerly utilized by sugarcane. The funds would be used by the ADC for engineering and feasibility studies for off-site water-source development and for on-site infrastructure layout and costs. The RETA-H Program approved the concept and invited the ADC to submit a full proposal.

◆ **Lower Hamakua Ditch**

The specific objective is the profitable restoration and reuse of plantation infrastructure. The staff of the ADC assisted the Agricultural Resource Management Division of the Department in its lease negotiations with the owner of the ditch system and in preparing its cost estimates and financial pro formas.

◆ **Freight Consolidation and Redistribution Centers**

The specific objective is to investigate the feasibility of a Hawaii consolidation center along with West Coast redistribution centers. The staff of the ADC conducted preliminary information gathering.



The North Portal of the Waiahole Ditch. The sign suspended from the roof of the tunnel marks the boundary under the Koolau Range between land owned by the State and Bishop Estate.

Outside Intake 31, employees of Waiahole Irrigation Company, Limited, are adjusting the gate that controls the flow of water into a tributary of the Waiahole Stream.



♦ **Reparcelization of Agriculturally Zoned Lands**

The specific objective is to devise a new set of standards for agricultural subdivisions that will encourage farming activities on former sugarcane lands. The staff of the ADC conducted preliminary information gathering and assisted the Department in its efforts to comply with House Concurrent Resolution No. 202, Senate Draft 1, 1998, requesting the HBOA Chairperson to assess and recommend solutions regarding land tenure and financing to assist diversified agricultural development.

♦ **Marketing Inventory of Former Sugarcane Lands and Water Systems**

The specific objective is to compile an inventory of Hawaii's lands, soils, and water systems that could be used as a marketing tool to publicize the availability of agricultural lands in Hawaii that are suitable for a variety of crops. The staff of the ADC submitted a concept proposal to the RETA-H Program requesting \$400,000 to compile a database of all sugarcane water systems and adjacent lands that would provide essential information about approximately 60 to 80 irrigation systems regarding sources of water, ownership of the systems, capacity of the systems, description and condition of the systems, personnel required to operate and maintain the systems, and agricultural lands served by the systems.

Other activities include:

- ♦ Completed a progress report in response to House Concurrent Resolution No. 72, Senate Draft 1, as adopted by the Hawaii Legislature in 1997, requesting the development and implementation of a comprehensive rural transition plan that promotes new and diversified agriculture and increases rural employment and development in the State.
- ♦ Assisted the Land Division, HDLNR, in drafting a comprehensive scope of work for the proposed Kekaha Sugar Infrastructure Study and in examining claims by Kekaha Sugar Company for individual capital improvements under the proposed lease.
- ♦ Participated in the drafting of the joint Memorandum of Understanding between the USDA and the State of Hawaii for the purpose of "improving agricultural

productivity and enhancing rural communities and natural resources in Hawaii." The staff of the ADC served as chair of the subcommittees on reuse of agricultural lands and rural infrastructure development.

LIST OF TABLES AND CHARTS

Photos - Board of Agriculture	35
Organizational Chart	36
Financial Statements	
General Funds (Operating Funds)	37
Special Funds	38
Trust Funds	39
Bond Funds	40
Revolving Funds	42
Agricultural Loan Division	
Charts	43
Agricultural Resource Management Division	
Lease Dispositions	44
Waimanalo Irrigation System	45
Kekaha Irrigation System	45
Molokai Irrigation System	45
Waimea Irrigation System	45
Animal Industry Division	
Animal Importation and Inspection	46
Non-Compliance: Pre & Post-Shipment Requirements	46
Disease Surveillance Testing	46
Specimen Examinations	46
Agricultural Development Division	
Summary of Commodities Branch Activities ...	47
Quality Assurance Division	
Measurement Standards Branch Activities	47
Plant Industry Division	
Pesticides Branch Activities	48
Noxious Weed Control Activities	48
Seed Regulatory Activities	48
Plant Pest Control Activities	49
Beneficial Insect Releases	49
Import Activities	50
Dog Detection Program	50
Export Activities	51
Interisland Activities	51
Revenues	51
Citations and Summons	51
Educational Activities	51
Brown Tree Snake Activities	52
Shipments of Tropical Fruit to U.S. Markets	52



AGRIBUSINESS DEVELOPMENT CORPORATION



Warren Iwasa
Acting Executive Director

The ADC was established pursuant to Act 264, SLH 1994, to coordinate the development of Hawaii's agricultural industry and to facilitate its transition from a dual-crop—sugar and pineapple—industry to a diversified, multicrop and animal industry. More specifically, ADC is responsible for devising means by which arable sugar and pineapple lands and infrastructure that can be used again by a diversified agricultural industry and for providing marketing assistance that can lead to the development of local, national, and international markets for Hawaii-grown products.

During FY 1999, the Corporation worked on five significant projects approved by the ADC Board of Directors:

- ❖ Granted \$100,000 to the PAC for securing patent licenses for the Rainbow papaya, a new variety of papaya that is resistant to the PRV — a serious disease of papaya.

The PRV-resistant papaya was developed through the joint efforts of scientists at the University of Hawaii, Cornell University, and Upjohn Company. The development of this variety of papaya also involved the use of technologies from four private companies. The PAC was responsible for securing the licenses from these private companies for the commercial use of their technologies. The PAC is also in charge of the distribution of seed to qualified growers, free of charge, in accordance with a seed distribution plan.

Hawaii's papaya industry can now work to regain its market share. PRV resulted in production levels falling and fruit quality suffering resulting in a loss of market share on the U.S. mainland and in foreign countries.

- ❖ Continued negotiations, nearing agreement with Amfac JMB/Hawaii to purchase assets of the Waiahole Irrigation Company, Ltd., including the 25-mile-long Waiahole Ditch; pursuant to Act 111, SLH 1998. State ownership of the system will guarantee a steady source of water at affordable prices for Central and Leeward Oahu farmers. A number of extensions were obtained, so certain preclosing requirements could be settled. Worked closely with the Governor's Office, the HDOA, and the Office of the Attorney General, to bring about the timely closing of the asset-purchase transaction. In the meantime, the condition of the Waiahole Ditch system is continually monitored to maintain the value of assets to be acquired.
- ❖ Transferred \$150,000 to enable the HDOA to continue operation and maintenance of the Lower Hamakua Ditch system. The action was taken following concerns voiced by the Hamakua—North Hilo Agricultural Cooperative and the Hawaii Farm Bureau Federation that maintenance of the aging system was necessary to ensure farmers will have steady delivery of irrigation water from the ditch system. The HDOA approved the transfer of funds allowing the Department to operate the Lower Hamakua Ditch system for another six months.
- ❖ Started preliminary planning for an agricultural subdivision in the Hamakua District of the Big Island that would be established in accordance with Hawaii County Ordinance No. 95-136, which regulates the development of farmplot subdivisions. The ordinance requires subdivisions to be used exclusively for agricultural purposes and allows subdivision development to be completed in a timely and cost-effective manner.
- ❖ Formed an ad hoc committee to prepare a contingency plan for the continued operation and maintenance of the Kekaha and Kokee ditch systems in the event that the plantation that now operates the systems closes down or decides that it no longer can operate and maintain the



systems. The committee is charged with identifying government agencies and private entities that are authorized or capable of operating the systems; identifying experienced and knowledgeable personnel to operate and maintain the systems; determining financial and other resource needs to operate and maintain the systems; and planning for appropriate uses of land to make the system self-sustaining.

Other activities also included the following:

- ❖ Participated in meetings convened by the HDOA pursuant to House Concurrent Resolution No. 202, S. D. 1, 19th Legislature, 1998 Regular Session. The purpose of the meetings was to recommend solutions regarding land tenure and financing to assist in the development of Hawaii's agriculture. The ADC advocated a partnership among landowners, lending institutions, and farmers to resolve land tenure and financing issues in a collaborative manner with the Corporation as the facilitator given its potential statewide presence, broad statutory authority, and pro-agriculture mandate.
- ❖ Participated in meetings convened by the HDOA pursuant to House Concurrent Resolution No. 46, H. D. 1, 19th Legislature, 1998 Regular Session. The purpose of the meetings was to prepare an action plan to promote Hawaii-grown and Made-in-Hawaii agricultural products. The ADC believes Hawaii-grown agricultural products should be included in tourism marketing campaigns.

LIST OF TABLES AND CHARTS

Hawaii Board of Agriculture	38
Organizational Chart	39
Hawaii's Agriculture: 2000 and Beyond Goals	40
Financial Statements	
General Fund (Operating Funds)	41
Special Funds	42
Trust Funds	43
Bond Fund	44-45
Revolving Fund	46
Agricultural Loan Division	
Charts	47
Agricultural Resource Management Division	
Lease Dispositions	48
Waimanalo Irrigation System	49
Kekaha Irrigation System	49
Molokai Irrigation System	49
Waimea Irrigation System	49
Animal Industry Division	
Animal Importations and Inspections	50
Non-compliance: Pre & Post-Shipments	
Requirements	50
Disease Surveillance Testing	50
Specimen Examinations	50
Plant Industry Division	
Pesticides Branch Activities	51
Noxious Weed Control Activities	51
Seed Regulatory Activities	51
Plant Pest Control Activities	52
Beneficial Insect Releases	52
Import Activities	52
Brown Tree Snake Activities	52-53
Export Activities	53
Interisland Activities	53
Revenues	53
Citations and Summons	53
Educational Activities	53
Quality Assurance Division	
Commodities Branch Activities	54
Measurement Standards Branch Activities	55



Listed below are brief overviews of developments that have impacted the branch's activities (See page 51 for a detailed table of activities):

- Implemented a revised enforcement system to improve the compliance rate for price verification inspections. Compliance rate went up from 77% to 84% from the previous year.
- Initiated plans for relocation of the Honolulu Branch office to a temporary facility due to the Kakaako Redevelopment Project.
- Investigated 42 odometer tampering complaints.
- Inspected 346,000 packages for proper content.
- Conducted taximeter inspections on Kauai by Oahu inspectors, since there is no branch personnel there.
- Registered more than 18,000 weighing devices, gasoline pumps, taxi meters, and linear measuring devices, and collected registration fees totaling more than \$180,000.
- Sustained five position vacancies within the Branch including the branch manager, the metrologist and two clerk-typist in Honolulu, and an inspector on the Big Island.

AGRIBUSINESS DEVELOPMENT CORPORATION

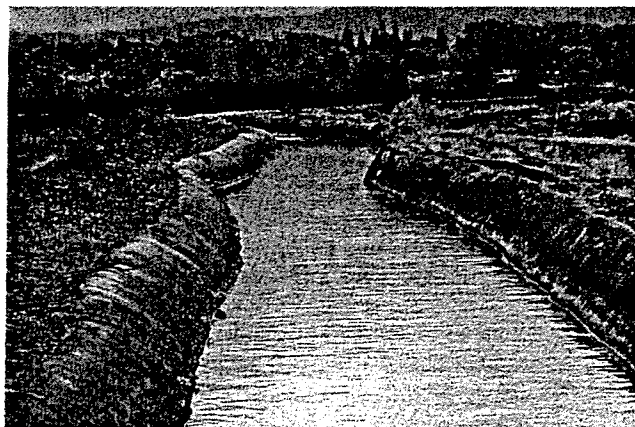


Alfredo Lee
Executive Director

The Agribusiness Development Corporation (ADC) was established pursuant to Act 264, SLH 1994 to coordinate the development of Hawaii's agricultural industry and to facilitate its transition from a dual-crop (sugar and pineapple) industry to a diversified, multicrop and animal industry. More specifically, it is responsible for devising means by which arable sugar and pineapple lands and their production infrastructure can be used again by a diversified agricultural industry and for providing marketing assistance that can lead to the development of local, national, and international markets for Hawaii-grown products.

During FY 2000, the Corporation worked on four significant projects approved by the ADC Board of Directors:

- Completed the agreement with Amfac/JMB Hawaii Inc. to purchase the assets of the Waiahole Irrigation Company, Ltd., including the 25-mile-long Waiahole Ditch, pursuant to Act 111, SLH 1998. As its ownership transfers to the State of Hawaii, the collective system (including development tunnels, wooden and metal siphons, as well as open ditch) is now referred to as the Waiahole Water System (WWS).



The Waiahole Ditch as it flows in Kunia.



Continued to provide a consistent source of water at affordable rates to Central and Leeward Oahu farmers without disruption despite the transfer of ownership and management. Completed the design for a capital improvement project to repair three wooden siphons on the WWS that, when completed, will substantially improve overall system efficiency. Commenced planning for metal siphon maintenance in cooperation with the U.S. Army Corps of Engineers. Planned additional system improvements relating to flow measurements and gate automation in conjunction with the U.S. Geological Survey and an engineering consultant.

- Transferred \$75,000 to enable the HDOA to continue the operation and maintenance of the Lower Hamakua Ditch system. The HDOA approved the transfer of funds allowing the Department to operate the system for an additional six months from July to December 1999..
- Continued the planning for an agricultural subdivision in the Hamakua District of the Big Island that would be established in accordance with Hawaii County Ordinance No. 95-136, which regulates the development of farmland subdivisions. The ADC secured assistance to identify the most productive lands and establish effective ways to proceed with agricultural development in this region.
- Conducted a strategic planning session among the ADC Board of Directors to develop a mission statement and a list of goals and short-term objectives. This session was organized to determine the direction of the ADC after five new members were appointed to the Board of Directors in September of 1999. The discussion resulted in the following:

Mission

The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.

Goals

- Utilize the unique powers of the ADC to make land, water, and other resources available to viable agricultural endeavors.
- Utilize the unique position of ADC to develop and nurture agricultural ventures and to privatize these ventures after their incubation period.
- Strive to invest in agricultural ventures with the greatest potential for self-sufficiency.

Other activities also included the following:

- Participated in a panel discussion on the future of agriculture convened by the 20th Legislature, 2000 Regular Session. The ADC promoted its unique powers and potential role in partnerships with other public and private entities for agricultural development.
- Joined the Koolau Mountains Watershed Partnership, an assemblage of major landowners and lessees (both public and private) participating in cooperative management of the Koolau Watershed. The ADC's involvement demonstrated its commitment to a healthy forested watershed and to preservation of Hawaii's water resources.



AGRIBUSINESS DEVELOPMENT CORPORATION



Alfredo Lee
Executive Director

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Mission Statement: The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.

Major activities in FY 2001:

Kekaha

Amfac/JMB announced the closure of their Kauai sugar operations on November 17, 2000. Approximately 28,000 acres of land in the Kekaha area leased out by the Department of Land and Natural Resources (DLNR) and the Department of Hawaiian Homelands (DHHL) were returned. The state's immediate goal was to keep the land productive in agriculture and prevent flooding of the area since a good portion of the Mana plain, including the Pacific Missile Range Facility (PMRF), is at or below sea level. On March 1, 2001 ADC took over the operation and maintenance of the infrastructure abandoned by Amfac. The infrastructure components include the Kokee Ditch system, the Kekaha Ditch system, the Kawaiie pump station, the Nohili pump station, the Waimea hydro power plant, the Waiawa hydro power plant, a complex and integrated irrigation/drainage ditch system, and many miles of electrical distribution lines.

With help from U.S. Senator Daniel Inouye, the Navy received \$3 million in the 2001 Department of Defense

Appropriations Act to help alleviate the flooding threat and to keep the area in agriculture. ADC received financial assistance from the Navy in the form of a contract to keep the drainage pumps running. Funding for major repairs on the pumping stations and power generating equipment are planned with work to begin shortly. Similarly, the 2001 Hawaii State Legislature also appropriated ADC funds through Act 208 to help with initial costs associated with transitioning plantation agriculture to diversified agriculture on the island of Kauai.

Due to ADC's unique exemption from Chapter 171, ADC is looking to secure a master lease from the DLNR and the DHHL so that land in the area could be leased to farmers expeditiously.

Waiahole Siphon Replacement

Since taking over operation of the Waiahole ditch in July of 1999, the ADC has made progress in providing water to the farmers as well as reducing system loss. Replacement of the system's three badly deteriorated wooden siphons was identified as a high priority project.

With help from the Agricultural Resource Management Division and the U.S. Army Corp of Engineers, final design of the wooden siphon replacement project was completed and the \$1.2 million project was subsequently awarded to Delta Construction Corporation. Construction got underway at the beginning of 2001. One of the major challenges is to continuously supply enough water to the farmers while construction is in progress. When all three wooden siphons are replaced with high-density polyethylene pipes the total system loss is expected to reduce between 2 to 2.5 million gallons daily. Anticipated completion of the repairs to the wooden siphons is in the fall of 2001.

Hamakua Agricultural Subdivision

A business plan was developed for the Hamakua agricultural subdivision project. This plan analyzed the type of crops suitable for the area as well as the market potential of the identified crops. The business plan also examined Hawaii county ordinance No. 95-136 for farm subdivisions and the long-term viability of the project.

As the ADC began to select a site for the project, Kamehameha Schools Bishop Estate (KSBE) suggested collaborative efforts to utilize some of the agriculture lands on the Hamakua coast more diversely. An educational and demonstration project was envisioned on a 110-acre site located on KSBE property. Memorandums of Understanding (MOU) are being developed between ADC, KSBE, the U.S. Department of Agriculture's Pacific Basin Agricultural Research Center (PBARC), the University of Hawaii's College of Tropical Agriculture and Human Resources (CTAHR) and the University of Hawaii Hilo's College of Agriculture, Forestry and Natural Resources Management. The project has also received a lot of positive input from the community.



Kauai Tropical Disinfestation Facility

ADC initiated negotiation with the Office of Technology Transfer and Economic Development of the University of Hawaii to take over management responsibility of the Kauai Tropical Fruit Disinfestation Facility. This facility, located strategically near the Lihue Airport, is currently the only plant on Kauai capable of treating papaya for export to the U.S. mainland. Recent modification of the vapor-heat treatment chambers allows treatments to conform to requirements for exporting fruits to Japan. Goal of the ADC is to keep this facility open as a means to assure the long-term viability of the papaya industry on Kauai. ADC is currently working towards obtaining a right-of-entry to utilize the facility and anticipates obtaining the right-of-entry in FY2001-2002.

Agribusiness Plan

The ADC was mandated by HRS Chapter 163D-5 to prepare the Hawaii Agribusiness Plan (HAP). Due to resource constraints, ADC was unable to prepare the plan as per mandate. Instead, the ADC Board of Directors developed an action plan on the basis of ADC's overview of Hawaii's agricultural industry. The goal of this action plan was to provide information and education to the public and private sectors on the latest developments, issues, and challenges facing Hawaii's agricultural industry, and to take direct action in a leadership or assisting role where a rapid response is merited. This plan was submitted to the legislature in March 2001.

Agriculture Training Survey

To ensure that a knowledgeable and trained workforce is available to support the growing diversified agriculture industry, the ADC conducted a comprehensive survey to identify the special training needs for workers employed in agriculture. One portion of the survey focused on the types of training desired by workers to upgrade their skills for career advancement. Another portion of the survey focused on management and business skills that could be useful for small farmers. The areas of training identified as being the most desirable were costs analysis, sales & marketing, and basic personal computer skills; areas directly related to management and business. The goal of this survey was to gather enough information to design training classes for agriculture workers and small farmers.

Other activities:

Together with the University of Hawaii and several private parties, the ADC explored the feasibility of setting up a consolidation, packing, and distribution facility for agriculture products on Oahu. The facility is intended to certify produce to meet the momentum gaining industry driven food safety practices requirements. This requirement, once accepted, will require producers and their produce be inspected to meet health and safety regulations.

In conjunction with the Hawaii Food Manufacturers Association, the ADC researched ways to increase the distribution and sales of Hawaii's value added produce grown

in and made in Hawaii to the military commissaries in the state. ADC assisted in the coordination of a food/trade show in which local producers could share their products with the intent of creating business relationships with the military commissaries.

The ADC, as operator of the ditch system, was a witness in the Matter of Water Use Permit Applications, Petitions for Interim Instream Flow Standard Amendments, and Petitions for Water Reservations for the Waiahole Ditch Combined Contested Case Hearing.



AGRIBUSINESS DEVELOPMENT CORPORATION



Alfredo Lee
Executive Director

The Agribusiness Development Corporation (ADC) was established pursuant to Act 164, SLH 1994 to coordinate the development of Hawaii's agricultural industry and to facilitate its transition from a dual-crop (sugar and pineapple) industry to a diversified, multi-crop and animal industry. More specifically, it is responsible for devising means by which arable sugar and pineapple lands and their production infrastructure can be used again by a diversified agricultural industry and for providing marketing assistance that can lead to the development of local, national, and international markets for Hawaii-grown products.

Mission Statement: The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.

Major activities in FY 2002:

Kekaha

Approximately 28,000 acres of Kekaha agricultural land became available for diversified agriculture when Amfac/JMB (Kekaha Sugar Company) ceased its sugar operations in November 2000. The ADC has been charged to keep the land productive in agriculture and prevent flooding of the area since a good portion of the Mana plain, including the Pacific Missile Range Facility (PMRF), is at or below sea level.

Working together with the farmers, the ADC provides operation and maintenance services to irrigation systems, drainage systems, pump stations, and electrical systems. Also funds from the 2001 Department of Defense Appropriations Act were awarded in forms of contracts to the ADC for the repair and maintenance of infrastructures identified as critical to the PMRF base operation. Repair and maintenance work included bringing the Kawaiele and Nohili pump stations up to OSHA safety standards, repairing the fire-damaged Mauka hydroelectric plant, and awarding design and construction contracts for drainage pump

replacements. In addition the ADC also dredged approximately 10 miles of drainage canals to alleviate the threat of flooding. The ADC anticipates the awarding of additional contracts from the Navy for infrastructure improvement in the fall of 2002.

In early 2002, two major rainstorms on Kauai threatened flooding in the Mana plain. ADC subcontractors followed emergency procedures and opened up several special drainage outlets, which allowed the accumulated storm water to flow into the ocean. As a result of these actions, no major flooding issues were noted during this period.

The ADC is in the process of securing a master lease of the Kekaha agricultural lands from the Department of Land and Natural Resources (DLNR) with intention to sublease land parcels to farmers. The ADC continues to work closely with the farmers on operational issues of the infrastructure and long-term land/water lease issues in anticipation that the ADC would acquire the master lease from the DLNR in the near future.

East Kauai

The 2001 Hawaii State Legislature appropriated the ADC funds through Act 208 to help with the initial costs associated with transitioning plantation agriculture to diversified agriculture on the island of Kauai. Of the \$300,000 appropriated, a \$100,000 grant was awarded to the East Kauai Water Users' Cooperative (Cooperative) for the operation and maintenance of the East Kauai Irrigation System (System) with the long-term objective for the system to become self-sufficient.

Waiahole Water System

The task of replacing three old, wooden siphons on the leeward side of the system was completed in November of 2001. Early water transmission figures indicate that replacement of the three siphons has reduced the average system loss by approximately three million gallons per day (mgd) as compared to figures recorded two years ago.

In December of 2001, the Commission on Water Resource Management (CWRM) through a Decision and Order for the Waiahole Ditch combined contested case hearing on remand assigned to ADC a Water Use Permit, which allows for 2.0 mgd of system losses. In addition, CWRM ordered the ADC:

- 1) to assess how water from the Waiahole Water System tunnel could be diverted into Waikane Stream and to develop a plan to accomplish the diversion, and
- 2) to construct the diversion mechanism. The assessment and plan shall be delivered to the CWRM within 90 days of the decision. The diversion of water from the tunnel system into



Waikane Stream shall be completed within 180 days after the plan is delivered to CWRM. Due to the complexity of easement and permit issues, the ADC was given an extension until June 2002 to complete the diversion plan. The diversion project is expected to be completed in the fall of 2002.

Hamakua Agricultural Subdivision

The ADC continues to work on the development of an agricultural subdivision project at the Hamakua coast on the Big Island. A 118-acre parcel of former sugar land on Kamehameha School property was identified as a potential site. The ADC initiated lease negotiation with Kamehameha Schools/Bishop Estate on the parcel.

Molokai Irrigation System

Senate Resolution No. 34 and Senate Concurrent Resolution No. 43 of the Twenty-First Legislature of the State of Hawaii directed the ADC to conduct an assessment of the Molokai Irrigation System and to recommend long-term solutions to chronic water shortages. The Hawaii Agriculture Research Center was contracted to conduct the study and a report was submitted to the legislature in December 2001.

Marketing of Maui Produce and Products

The Hawaii State Legislature, 2002 Session, passed a bill for an act relating to agricultural marketing to assist Maui farmers with marketing their products and produce. The ADC plans on seeking input from the Maui farmers, the County of Maui, and the University of Hawaii to come up with a comprehensive marketing plan with broad support.

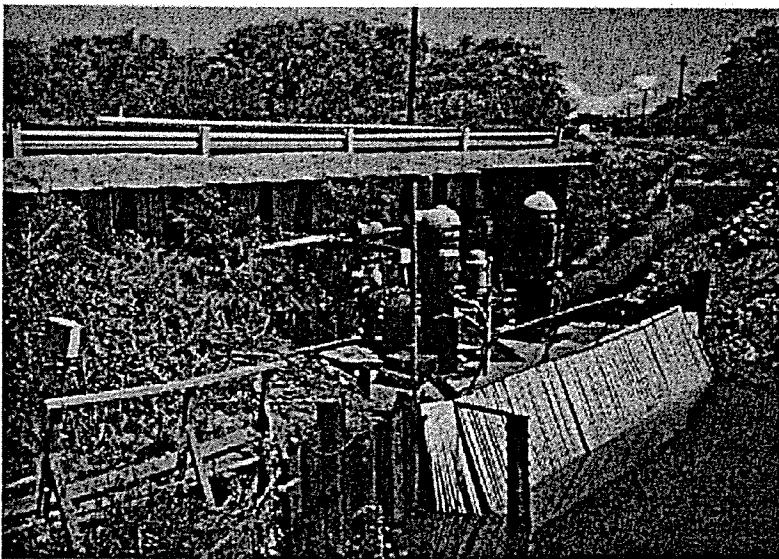
Other activities:

Together with several private parties, the ADC continues to explore the feasibility of setting up a consolidation, packing, and distribution facility for agriculture products on Oahu.

The ADC also held informal meetings with several groups representing the University of Hawaii, Hawaii Agriculture Research Center, Oahu Work-Links, and other private entities to identify training needs for agricultural workers and to seek funding for potential programs.

The ADC explored the feasibility of constructing hydroelectric plants on irrigation systems managed by the ADC on Oahu and on Kauai. Initial assessment showed potential at several locations. However more in-depth studies need to be conducted to include concerns on cost of construction, return on investment, environmental impact and continued availability of water on these systems.

In May 2002 at the Hawaii Bioenergy Conference on Kauai, the ADC Chairperson Robert Sutherland, representing the J.T. Waterhouse Trust, presented a success story of using photovoltaic panels to replace diesel generators on a ranch. In attendance was also the ADC Executive Director, Alfredo Lee. The two-day conference was well attended by policy makers, business people, farmers, educators, and students. In June 2002, the ADC participated in the "Think Out of the Field" tour, with Board Member Diane Ley and Executive Director Alfredo Lee joining 26 other farmers, educators, journalists, and business people for a tour of large and small farms in the Napa Valley, Modesto, Fresno, and Salinas Valley, California area. Produce centers, farmers markets, grocery stores, and processing facilities were also visited. Focus of the trip was on food safety procedures and alternative marketing channels. There was tremendous amount of information being exchanged between Hawaii and California farmers. The trip also allowed Hawaii agriculture participants to network and share information amongst themselves.



The Nohili pumping station at the Pacific Missile Range Facility (PMRF) on Kauai keeps the Mana plain water table low. During major rain storms, the station helps prevent flooding at the PMRF and in the nearby town of Kekaha.



AGRIBUSINESS DEVELOPMENT CORPORATION



Alfredo Lee
Executive Director

The Agribusiness Development Corporation (ADC) was established pursuant to Act 264, SLH 1994 to coordinate the development of Hawaii's agricultural industry and to facilitate its transition from a dual-crop (sugar and pineapple) industry to a diversified, multi-crop and animal industry. More specifically, it is responsible for devising means by which arable sugar and pineapple lands and their production infrastructure can be used again by a diversified agricultural industry and for providing marketing assistance that can lead to the development of local, national, and international markets for Hawaii-grown products.

Mission Statement: The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.

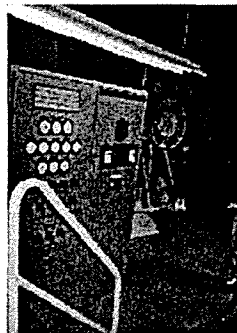
The ADC is an attached agency to the Department of Agriculture governed by a board of eleven (11) members.

Major activities in FY 2003:

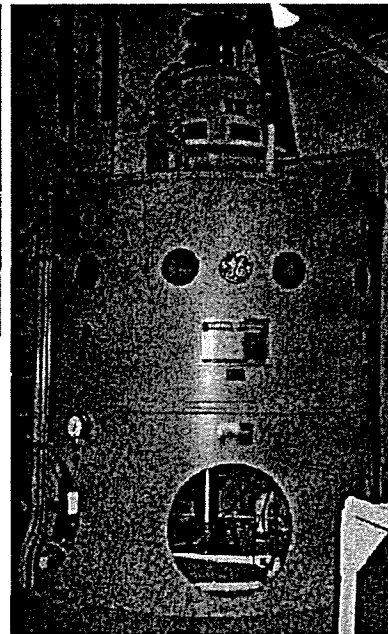
➤ Kekaha Agricultural Lands

The ADC has successfully negotiated the transfer of about 12,600 acres of Kekaha Agricultural lands and the related infrastructure via an Executive Order (EO) from the Department of Land and Natural Resources (DLNR) to the ADC subject to a Memorandum of Agreement between DLNR and ADC. DLNR agrees to take care of pending issues prior to turning over the property to ADC and will continue to help ADC on land management issues. The EO will allow the ADC to make optimal use of the State's assets and allows ADC the flexibility to administer the agricultural lands and infrastructure.

ADC continues to provide operational and maintenance services for the infrastructure of the Kekaha agricultural lands. In January of 2003, ADC completed the \$1.25 million Mauka (Waimea) Hydroelectric Power Plant repair



Left: New control panel for the Mauka Hydroelectric plant in Waimea, Kauai..



Right: Refurbished hydroelectric generator.

project, part of the Navy – Phase II contract. With this hydroelectric plant back in operation, the Kekaha agricultural lands are once again energy self-sufficient. Occasional surplus electricity generated from the hydroelectric power plant has been sold to the Kauai Island Utilities Cooperative (KIUC), further reducing Kauai's demand on fossil fuel.

Utilizing Navy-Phase III funds appropriated via the FY2002 Department of Defense Appropriations Act, ADC awarded contracts for surveying and engineering design work at the Kawaiie and Nohili pump stations and for ravine cleaning and clearing. Funds have also been used to conduct preliminary environmental assessments and permit requirement evaluations at various project sites to include access road repair and Kekaha electrical system improvement projects.

➤ East Kauai

The ADC continued to provide funds appropriated via Act 208, SLH 2001, for the operation and maintenance of the East Kauai Irrigation System. The East Kauai Water Users' Cooperative, managing entity of the system, utilized the funds to maintain and improve the irrigation system. Starting out with a dozen members, the Cooperative increased its membership to 37 within a one-year period. With more members committing to sharing the operational costs, the Cooperative's goal is to become financially self-sufficient in the next few years.



➤ **Waiahole Water System**

ADC continues to provide Waiahole Water System irrigation water without interruption to users in Central and Leeward Oahu. During this past fiscal year, water usage increased by 29 percent, which was due primarily to, increased planting of crops and drought-like conditions. After an initial grace period, ADC began making back debt service payments for the general obligation (G.O.) bond issued for the purchase of the water system.

Per the decision of the Commission on Water Resource Management, LEGAL FRAMEWORK, FINDINGS OF FACT, AND DECISION OF ORDER (December 2001 Decision and Order), ADC was ordered to develop an assessment and plan, and construct a diversion that would deliver the additional water from the Waiahole ditch tunnel system to the Waikane stream. ADC completed the Waikane diversion in November 2002. Since then, 2 million gallons of water from the ditch is being diverted into Waikane stream daily in an effort to partially restore historical instream flows. Information regarding the background and status of the Commission on Water Resource Management's Decision and Order on Waiahole water use, can be viewed at <http://.state.hi.us/dlnr/cwrm/current/cchoa95>.

Other Activities:

- The ADC continued lease negotiation with Kamehameha Schools for use of about 118 acres of Kamehameha Schools land for the development an agricultural subdivision project on the Hamakua coast of the Big Island.
- ADC has continued lease negotiations with the University of Hawaii for use of the Kauai Tropical Fruit Disinfestation Facility located near the Lihue Airport. This facility currently is the only plant on Kauai capable of treating papaya for export to the U.S. mainland. The goal of ADC is to keep this facility open as a means to assure long-term viability of the papaya industry on Kauai.
- The ADC Board of Directors has also approved the expenditure of \$10,000 and is in the process of entering into a Memorandum of Agreement (MOA) with the University of Hawaii, College of Tropical Agriculture and Human Resources (CTAHR) for the development of a marketing plan and strategy that fully represents all segments of diversified agriculture in Hawaii. CTAHR will create an agricultural marketing project with broad objectives for developing ideal goals or targets for marketing agricultural products, identifying successful strategies and techniques used by the industry, demonstrating such strategies and techniques, and assisting industry to adopt such practices.

➤ **State of Hawaii, Twenty-Second State Legislature, 2003**

Two measures that were submitted to the Legislature were passed and signed into law. The first measure, Act 91, Relating to the Agribusiness Development Corporation, retains the selection process for the ADC Board of Directors by repealing provisions that establish the members of the Board of Agriculture as members of the board of directors of the ADC, beginning July 1, 2005. Act 91 allows Hawaii's agricultural industry to fully benefit from the efforts of the board members appointed by the Governor, specifically for the purposes of the ADC.

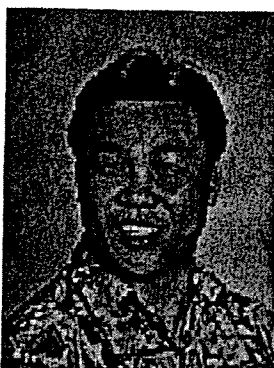
The second measure, Act 47, Relating to the Agribusiness Development Corporation, provides the ADC with the needed flexibility in managing public lands by exempting public lands set aside by the Governor to ADC, or public lands leased to ADC by any department of agency of the State, from the provision of Chapter 171, Hawaii Revised Statute (HRS), relating to public lands. This Act affords the ADC the same exemptions for private lands purchased by ADC and allows ADC the flexibility and authority necessary to make optimal use of its assets.

➤ **Board Members**

ADC welcomes new board members Eric Weinert (Big Island) and Teena Rasmussen (Maui) who replaced departed Diane Ley and Robert Sutherland. Other private-sector members of the board are Larry Jeffs, Yukio Kitagawa, Denis Kam, Chris Kanazawa, Bert Hatton, and Wayne Katayama. Ex-Official members include Chairperson of the Department of Agriculture, Chairperson of the Department of Land and Natural Resources, and Director of the Department of Business, Economic Development and Tourism.



AGRIBUSINESS DEVELOPMENT CORPORATION



Alfredo Lee
Executive Director

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Mission Statement: The Agribusiness Development Corporation is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture.

Board Members: Larry Jeffs (Chair), Yukio Kitagawa (Vice-Chair), Bert Hatton, Denis Kam, Chris Kanazawa, Wayne Katayama, Teena Rasmussen, Eric Weinert, Sandra Kunimoto (Ex-Officio), Ted Liu (Ex-Officio), and Peter Young (Ex-Officio).

The following are highlights of ADC's activity during FY 2004:

➔ Kekaha Agricultural Lands

In September, pursuant to Executive Order No. 4007, the Department of Land and Natural Resources (DLNR) officially transferred 12,500 acres of agricultural lands to ADC. To facilitate a smooth transition, ADC honored existing tenants' revocable permits and applicable rents.

A coalition of tenants formally organized the Kekaha Agricultural Association (Coop) to manage common infrastructure vacated by Amfac/JMB. These include two irrigation systems, an extensive drainage system with two pump stations, an electrical system with two hydroelectric plants, and roadways. ADC's Kekaha Committee and the Coop are in discussion regarding rental areas, long-term licenses, and maintenance of common areas and infrastructure.

Navy Phase II and Phase III projects, totaling \$4.46 million, are continuing with termination dates in December 2004 and March 2005, respectively. A major milestone was accomplished when the design of the repair/replacement of the Kawaiele and Nohili pump stations was completed. This undertaking includes replacing six drainage pumps, strengthening the pump station structure, replacing transformers and improving the drainage channel. The infrastructure is critical in controlling the flood plain in Kekaha.

The Navy also successfully obtained a 270-acre lease and an agricultural restrictive use easement for the Mana plain from the Department of Land and Natural Resources in May 2004.

The Waimea (Mauka) hydroelectric plant, since becoming fully operational in November 2002, has continued to produce most of the electricity needed for the pump stations and for farming.



Kekaha ag lands near the old mill



Kekaha main canal



Aerial view of Kekaha agricultural lands with the Pacific Missile Range Facility in the foreground.

➔ **Waiahole Water System (WWS)**

Weather patterns drastically affected water use this fiscal year. In contrast to the near drought conditions during the first half of the fiscal year, the second half brought stormy weather and flooding in some areas. Total water usage for FY04 decreased from FY03 by about 223 million gallons.

Rainy weather on Oahu's windward side also caused a few landslides, making an access road inaccessible for maintenance vehicles. Continuous rainy conditions deterred efforts to perform repairs and clear debris from the development and main transmission tunnels. Water from the rain also increased total water development in the tunnels, consequently increasing the amount of system loss.

Due to reduced federal matching funds to State agencies, ADC's agreement with the U.S. Geological Survey (USGS) to monitor gauging stations at North Portal, Gate 31 and Adit 8 terminated in September 2003. WWS purchased, installed and calibrated new electronic dataloggers for the three stations. Our goal is to convert the remaining gauging stations from the use of mechanical recorders to digital dataloggers in the next few years.

During its regular session in 2003, the Hawaii Legislature determined that the WWS Revolving Fund was in excess of \$400,000. This money was then transferred into the General Fund in FY04 to balance

the state budget. This move threatens the revolving fund's long-term solvency and its sufficiency to re-pay our debt service for the general obligation bonds issued to purchase the water system in 1999.

In June 2004, the Hawaii Supreme Court issued a remand on the Commission on Water Resource Management's (CWRM) Decision and Order on the Waiahole Water Contested Case Hearing. The Supreme Court requested further findings and conclusion regarding: (1) the designation of interim instream flow standards for windward streams; (2) the 2.2 mgd of unpermitted water; (3) the practicability of The Estate of James Campbell and Puu Makakilo using alternative groundwater resources; (4) the actual needs of Field Nos. 115, 116, 145 and of 229 acres in Field No. 146; and (5) ADC's permit for system losses.

➔ **East Kauai Irrigation System**

In a continuing effort to transition the East Kauai Irrigation System from sugarcane irrigation to diversified agricultural use, ADC contracted out services to operate and maintain the water system. The system is currently managed by the East Kauai Water Users Cooperative, providing irrigation water to about 738 acres of land in the upper Kapaa area, and is reportedly in better shape than it has been over the past decade.



➔ **Hamakua Agricultural Subdivision**

A formal planning session among community members was held to discuss development of the agricultural subdivision project in Hamakua. It appears that community interest has evolved into developing a community-based agricultural plan to preserve future agricultural activity on agricultural lands in the Hamakua region.

➔ **Marketing of Maui Produce and Products**

To fulfill its cooperative agreement with ADC, the University of Hawaii, College of Tropical Agriculture and Human Resources (CTAHR), began to: (1) perform preliminary studies on the potential of a tea industry in Hawaii; (2) conduct a preliminary assessment to brand the Maui onion and assist the Maui Coop with record keeping and marketing issues, and (3) provide assistance to bolster Kauai Community College's entrepreneur program.

➔ **State of Hawaii, Twenty-third Legislature, 2004**

House Bill 2341 was introduced to stagger terms for ADC board members and was signed into law as Act 29. This will preserve continuity of policy and decision-making within the corporation.

Act 216 was signed into law to reform state procurement, a part of which will discontinue ADC's procurement exemption, effective January 1, 2005.

Other Ongoing Activities

- ➔ The Environmental Protection Agency awarded ADC a grant to provide pesticide usage training to Korean farmers on the island of Hawaii. Various brochures and posters have been translated into the Korean language and Korean farmers are attending pesticide usage training classes.
- ➔ Lease negotiations between ADC and the University of Hawaii (UH) continue for Kauai's Tropical Fruit Disinfestation facility. The 2004 Hawaii State Legislature approved capital improvement project funding for the facility.
- ➔ ADC participated with the Agricultural Working Group's (AWG) concerted effort of a broad group of 70+ representatives of public, private, and corporate organizations and farmers, to propose legislation to preserve important agricultural lands.



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Mission Statement (revised August 30, 2004): "The Agribusiness Development Corporation (ADC) is a dynamic vehicle and process to create and to optimize agricultural assets throughout the state for the economic, environmental and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture with unique powers to assist agricultural business."

ADC Board Members:

Yukio Kitagawa (Chair)
Teena Rasmussen (Vice Chair)
Bert Hatton
Denis Kam
Chris Kanazawa
Wayne Katayama
Eric Weinert
Sandra Lee Kunimoto (Ex-Officio, HDOA)
Ted Liu (Ex-Officio, Department of Business, Economic Development & Tourism)
Peter Young (Ex-Officio, Department of Land and Natural Resources).

The following are highlights of ADC's activity during FY 2005:

❖ Kekaha Agricultural Lands

In March 2005, ADC completed all of its projects related to the Navy Phase II and Phase III funding for off-base projects at the Pacific Missile Range Facility (PMRF). A total of \$4.46 million was spent upgrading infrastructure to include the following: repair/replacement of six drainage pumps and related structures at the Kawaiele and Nohili pump stations, dredging of drainage canals and improvement of flood control gates to facilitate the flow of storm water; repair/upgrade of the Mauka hydroelectric plant; rewiring of the Waiawa hydroelectric plant generator, improvement of access roads; and the hardening of electrical power lines.

When the 270-acre lease and the agricultural restrictive use easement for the Mana plain are granted to the Navy by the Department of Land and Natural Resources, it is anticipated the Navy will continue to ask ADC to be involved with the operation and maintenance of the pump stations and drainage canal maintenance.

Gay and Robinson (G&R), one of the two remaining sugar companies in the state, announced that they would quit production farming at Kekaha after harvesting their next crop. However, they have expressed interest to continue farming at Kekaha for sugar cane seed. G&R has been farming at Kekaha since Kekaha Sugar Company's demise in 2001. It is expected that their acreage would drop from about 3,000 acres to about 500 acres when the transition is completed.

The ADC Kekaha Committee approved the terms and conditions of an agreement to be executed between ADC and the Kekaha Agriculture Association (Coop), which would allow the Coop to manage the common infrastructure to include the Kokee and Kekaha irrigation ditches, the Mauka and Waiawa hydroelectric plants, the backup generators, wells, main drainage ditches and access roads. In exchange, the farmer tenants will get a maintenance credit off their rent and keep most of the revenue from income generating resources.

The Kekaha Committee approved dividing the Kekaha property into blocks for licensing to agricultural tenants consisting of farmable fields, contributory land and waste land. A total of approximately 5,000 farmable acres was approved to be licensed to the following tenants: Pioneer Hi-Bred, Syngenta Seeds, Far West Ag, Wines of Kauai, and G&R. These tenants have been farming on the property and involved with the



operation and maintenance of the common infrastructure at Kekaha since the sugar plantation closed in 2001. An appraisal of agricultural rental rates was performed by an independent appraiser.

Ceatech, an aquaculture tenant in Kekaha with a revocable permit for 433 acres, filed for Chapter 11 bankruptcy protection in March 2005. Sunrise Capital, LLC obtained court approval to purchase Ceatech's assets a few months later and applied for use of the same land. (The ADC Kekaha Committee approved the issuance of a 20-year license to Sunrise Capital at its July 13, 2005 meeting.)

❖ **Waiahole Water System (WWS)**

As a result of the June 2004 Hawaii Supreme Court decision, the Commission on Water Resource Management (CWRM) appointed a hearing officer for round two of the Waiahole contested case hearing on remand of the decision. The hearing was conducted in April 2005. Issues requiring reconsideration include: (1) the designation of interim instream flow standards for windward streams; (2) the 2.2 mgd of unpermitted water; (3) the practicability of The Estate of James Campbell and Puu Makakilo using alternative groundwater resources; (4) the actual needs of ditch water for Field Nos. 115, 116, 145 and of 229 acres in Field No. 146; and (5) ADC's permit for system loss. ADC's direct involvement in the contested case was the system's loss, which was brought down from a high of about six million gallons/day (mgd) in 1999 to a low of about two mgd in 2003. Unfortunately we were not able to keep system loss below two mgd in 2004 and 2005 due to exceptionally wet weather.

ADC continues to work on improving the system and reducing system loss. One potential source of system loss is identified as the unlined portion of the ditch system, mainly the two reservoirs. Through the Department of Agriculture, ADC has been working with the U.S. Army Corps of Engineers to line the reservoirs. The multi-million dollar project will be funded jointly by the federal government (65 percent) and the state (35 percent). The design portion of the project has already begun. Since public funds cannot be used on private properties, ADC is working with landowners Campbell Estate and Robinson Estate for the proper easements.

To better monitor system loss, ADC installed two Parshall flumes at the end of the system, around Reservoir 155, to replace a flow-through water meter that was undersized for the flow it was handling.

ADC also applied for a competitive Natural Resources Conservation Service (NRCS) Conservation Innovative Grant with the purpose of finding innovative methods to measure and to reduce irrigation water system losses.

Approaching ditch maintenance as a public-private partnership, ADC approved the use of funds due ADC (about \$15,000) from prior year's water use commitment shortfall, to improve the ditch system. Some of the projects performed by the water users included the dredging of the by-pass ditch at Reservoir 155 and soil erosion control measures taken near Del Monte fields.



ADC has helped to fund the operation and maintenance of East Kauai Irrigation System in the Kalepa lands in East Kauai.



For most of FY 05, central Oahu received more rainfall than the norm. As a consequence, demand for irrigation water was relatively low when compared to the previous several years.

❖ **East Kauai Irrigation System and Kalepa Lands**

Once again as per directed by the legislature, ADC contributed to the operation and maintenance of the East Kauai Irrigation System. Unlike previous years when general funds were appropriated for this effort, ADC expended \$50,000 from its revolving fund this fiscal year. The scope of work primarily included repairing and maintaining deteriorated ditch sections and cutting back overgrowth along the ditch.

ADC was also approached by DLNR to take over the East Kauai Irrigation System and approximately 7,000 acres of state-owned agricultural land in the Kalepa area. This proposal is a good fit for ADC's mission of preserving agricultural assets for diversified agriculture use. The ADC board of directors approved to take on this project at its February 18, 2005 meeting. When appropriate approvals from the Board of Agriculture and the Board of Land and Natural Resources are obtained, it is expected that the assets will be transferred to ADC by an executive order from the Governor.

❖ **Tea**

ADC has been involved with University of Hawaii's College of Tropical Agriculture and Human Resources (CTAHR) on the development of a tea industry on the Big Island for a couple of years. It was determined that a very high-quality tea could be grown in certain parts of the state. There seems to be a strong interest on this project by a diverse group of farmers who are semi-organized.

With support from the community, parts of the remaining funds reserved for the development of an agricultural subdivision in Hamakua was authorized to be used for this project. The ADC board also approved that \$100,000 be allocated to CTAHR for the upgrade and enlargement of the pilot processing plant at the Mealani Experimental Station, speeding up the availability of tea plant cuttings to farmers, refinement of production processing methods, and development of quality standards.

Other Activities

- ❖ ADC continues to work with various entities to include the County of Kauai, CTAHR, the Kauai Farm Bureau, and Kauai Economic Opportunity, Inc. for the reopening of Kauai's Tropical Fruit Disinfestation facility. ADC initiated the request for the release of \$150,000 capital improvement fund for the upgrading



ADC is helping to fund repairs to a tea processing station as part of a Tea Project on the Big Island.

and improvement of the facility, which has been idle for about four years.

- ❖ Federal funds made available under the USDA Farm and Ranch Land Protection Program (FRLPP) have not been used by Hawaii landowners in the past due to the lack of state matching funds. Passage of House Bill 1308, signed into law by Governor Linda Lingle as the Legacy Lands Act, ensures that a funding source is available for this purpose, along with other preservation purposes. ADC has been approached to work with landowners to apply for FRLPP grants for the preservation of agricultural lands.
- ❖ ADC, HDOA and CTAHR are collaborators in the \$300,000 grant awarded to Pacific Gateway for the training of socially disadvantaged farmers.
- ❖ ADC works with a group known as the Oahu North Shore Ag Coalition, to promote agriculture and related businesses on the north shore of Oahu, which has about 40,000 acres of former sugar land and an extensive irrigation system. Although the land and irrigation system in the area are not public, ADC's expertise with water system management could be of help to the farmers and landowners.
- ❖ ADC was also approached by a group of farmer/landowners and the Hawaii County to assist with a water resource management project in Kau. There is a thriving agricultural industry in the district which has many acres of agricultural land and several irrigation systems. Some of the former sugar lands in the area have been converted to macadamia nut and coffee orchards.

APPENDIX H

**Agribusiness Development Corporation's
Action Plan**

March 2001

STATE OF HAWAII
JUN 05 2001
LEGISLATIVE COUNSEL BUREAU

Introduction. The Agribusiness Development Corporation (ADC) was formed to address the issues related to the transition from plantation agriculture to diversified agricultural operations. The ADC was intended to provide "aggressive and dynamic leadership" to respond to a constantly evolving industry. This type of leadership requires a different planning paradigm; traditional plans tend to be inflexible and difficult to apply to changing circumstances. As a result, the ADC developed an action plan for agriculture on the basis of our overview of Hawaii's agricultural industry (see Appendix). This action plan serves to guide the ADC on the projects and actions undertaken, and will be updated frequently.

In January 2000, the ADC Board of Directors had a strategic planning session. As a result of this session, a mission statement, goals, and objectives were developed.

"The Agribusiness Development Corporation (ADC) is a vehicle and process to make the optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawaii. It is a risk-taking advocate for agriculture."

The ADC believes that its focus in the following areas will benefit Hawaii's agriculture in the short-term as well as in the long-term:

- Assist in transforming available land into agriculture use.
- Protect, maintain, and operate irrigation systems and infrastructures to ensure that a reliable and affordable water source is available to farmers.
- Provide assistance to solving distribution and transportation bottlenecks.
- Identify training needs and resources for farm workers and farm managers to upgrade our agricultural workforce.
- As an advocate for agriculture, educate the public and government entities about agriculture.

The remainder of this report provides a brief description of some of the major projects that ADC has taken on to fulfill its mission.

Waiahole Water System. Waiahole water currently irrigates approximately 4,000 acres of land in leeward Oahu, and through its continued use provides jobs in whole or in part to almost 2,000 people.

Since taking over the system on July 9, 1999, the ADC provides management and leadership in the day-to-day operations of the ditch, resulting in more efficient delivery of water with reduced losses. With the projected completion of a pump installation in early 2001, overflow losses could be reduced by 1.0 to 1.5 million gallons daily. A \$1.2 million wooden siphon replacement project is scheduled to start in January 2001. When completed, daily system loss could be reduced by another 2 to 3 million gallons. This water could remain in windward streams, thereby benefiting the stream restoration process.

In the future, expansion of water storage capacity must be addressed. Partnership with private enterprises has been explored to reduce the up-front cost of building additional reservoirs.

Formation of the Kunia Water Cooperative, a primary user group of the Waiahole Water System, fostered unity and cooperation among farmers. It could serve as a model for other user groups in similar situations.

The Waiahole Water System, our first major project, is an area of focus for the ADC because it represents the preservation of former plantation infrastructure for continued use in diversified operations. This preservation appears to be an important issue statewide.

Kekaha. With Amfac closing its plantation and mill, the ADC is working together with the Department of Agriculture, the Department of Land and Natural Resources, and a coalition of agricultural groups to eventually become the interim operator of the irrigation and drainage systems effective March 1, 2001. The goal is to preserve valuable agricultural land and infrastructure in the region and to allow diversified agriculture and aquaculture to flourish. Since there are a number of complex issues in Kekaha, the ADC has formed a Kekaha Committee to further investigate funding sources, responsibilities, and liabilities. Issues to be immediately addressed:

- The transfer of the National Pollutant Discharge Elimination System (NPDES) permit from Amfac to the ADC.
- The possible need for the ADC to assume the role of Kauai Electric's "customer of record" for the area until a more permanent solution is found.
- The possible need for the ADC to assist in the design and management of future infrastructure improvement projects.

The situation in Kekaha is similar to that of the Waiahole Water System, where preserving plantation infrastructure is critical to continued agricultural use in the area. The need to address transitional issues in Kekaha is perhaps even greater, with drainage and electrical power as complicating factors.

Hamakua subdivision. The idea for this pilot project utilizing ADC's unique powers and position is to acquire state land parcels and put them into active crop production. Exemption from Chapter 171 restrictions will be used to expedite the process. The project's objective is to stimulate the economy in the area through agriculture. There appears to be an opportunity for farmers to grow orchard or truck crops at the proposed location of the subdivision. The availability of a nearby community kitchen could facilitate the development of value-added products.

Initial investigation indicated that a few farmers are interested in land parcels between 10 to 80 acres.

At this time, the ADC Board favors the idea of managing the property directly through a contracted management agent. The criteria for the selection of tenants will be based on experience, credit risk, and soundness of business plans.

An agricultural subdivision in Hamakua is an important project for the ADC because it allows direct assistance in the transition of former plantation lands to smaller land units containing diversified agricultural operations.

Training of farmers and farm workers. The ADC is in the process of conducting a survey to determine training program needs for farmers and farm workers. After assessing these needs, the goal is to develop a program and seek funding to conduct training. An apprenticeship program for new agricultural workers has been included in some discussions. This ADC survey represents the ADC's ability to provide advisory and technical assistance to the agricultural industry overall.

Sales of local produce and processed food to commissaries. Data obtained from the Defense Commissary Agency (DECA) management and the Pacific Buying Office staff reveal that the commissary system is currently purchasing approximately \$1 million of produce per month, about 30% of which comes from local sources. There exists an opportunity to further identify the type of produce and tonnage, and disseminate this information to local farmers. If necessary, the ADC may get involved in working with farmers, wholesalers, and other entities to resolve distribution issues, especially transportation from the Neighbor Islands to Oahu. Any involvement will further the fulfillment of ADC's responsibility to reduce reliance on imported produce and increase local production.

Kauai Tropical Fruit Disinfestation Facility. After the current operator expressed a desire to discontinue operations, requests came from the community and the Farm Bureau for the ADC to take over the disinfestation facility. The goal for the ADC is to sublease the facility to a new operator or to manage the operation directly so that Kauai growers are still able to disinfest their fruits (mostly papaya) for export purposes. The desired result is a stable and export-oriented papaya industry on the island. This particular project was selected on the basis of it helping ensure the provision of adequate support facilities to meet national and international market needs.

Other projects:

- Discuss with users of the former East Kauai Water Company (Amfac subsidiary) possible ADC assistance in setting up a water user cooperative similar to the Kunia Water Cooperative on Oahu.
- Explore the concept of a consolidation center on Oahu and/or a distribution center on the West Coast of the U.S. The approach is to work together with various trade organizations and private enterprises that could benefit from distribution efficiencies and food safety issues.
- Assist the Hawaii Food Resource Center to conduct research and financial analysis of a plant location. Some of the ultimate goals of the Hawaii Food Resource Center are to process surplus produce from farmers and to encourage small businesses or farmers entering into the value-added business.
- Partner with the U.S. Army Corps of Engineers to conduct studies of other irrigation ditches around the State, pending federal funding and landowner approval.
- As a member of the Koolau Mountains Watershed Partnership, an assemblage of major landowners and lessees (both public and private) participating in cooperative management of the Koolau Mountain Watershed, the ADC's continued involvement demonstrates its commitment to a healthy forested watershed and to preservation of Hawaii's water resources.

Appendix

An Overview of Hawaii's Agriculture

Introduction

Hawaii's agriculture is a growing and diverse industry that includes vegetables, fruits, coffee, macadamia nuts, flowers and nursery products, cattle and other livestock, forestry, and even aquaculture. Agricultural production value increased from \$441 million in 1979 to \$509 million in 1998, with diversified agriculture compensating for the decline in sugar by doubling from \$154 million to \$329 million over that same period. Even fresh pineapple production stabilized during those years as a steadying influence to the agricultural industry (Figure 1). During the State's economic downturn of the 1990's, diversified agriculture continued to grow at a pace exceeding many "old economy" industries. It has been estimated that a federally funded program, Rural Economic Transition Assistance-Hawaii (RETA-H), has helped create more than 300 businesses employing more than 1000 people. A policy change in Hawaii's military installations to buy more local produce also has helped many local farmers to expand their market.

As sugar disappears from the landscape, new agribusiness ventures flourish. Total production of vegetables and melons for 1999 is estimated at 100 million pounds, up from about 80 million pounds in 1995. Fresh herb sales grew from 1.1 million pounds in 1995 to a record high of 2.9 million pounds in 1999. Seed production companies in Hawaii oversee research and production that total approximately 67% of the corn, 50% of the soybean, and 50% of the sunflower markets in the U.S. In the past few years, these companies have invested millions of dollars in plants and equipment and provided jobs for many. Here are more indications of this robust growth in the agricultural industry:

- Green bell peppers, tomatoes, and watermelons are now mostly grown in the State.
- Sweet onion is one of the latest crops to be added to the list of items exported to the mainland.
- Eucalyptus forests appear along the Hamakua coast on the Big Island.
- An increased number of tropical fruit trees (mango, rambutan, lychee, etc.) have been planted statewide.
- The inauguration of an X-ray irradiation facility in Keaau opens the door for more export opportunities for Hawaii's agricultural products.

We have seen a successful model in central Oahu where large, experienced farm operations can utilize sizeable tracts of former sugarcane land and transition them into agricultural use more efficiently than small, individual farmers could. Because of their size, these large operations have a major impact on the economy immediately. The previous performance of these operations allow them to raise capital, hire qualified personnel, integrate their operations vertically or horizontally, explore new markets, and earn a good return on investment.

Another way of stimulating agriculture, though on a smaller scale, is to make land parcels available for individuals who want to accept the challenges posed by the requirements of modern farming. The State Department of Agriculture (DOA) has an agricultural park

program that offers long-term leases, while the private sector tends to offer short-term leases on similar sized lots.

The definition of "farmer" in this overview includes all people in the business of producing food and fiber.

Land and water

The availability of land for agriculture has continued to improve during the past decade. Generally speaking, there is sufficient agricultural land in the State to grow crops for both import replacement and export opportunities. For instance, there may not be land available in DOA's agricultural parks, but private lots from 1 to 20 acres in size are available for farmers. Former sugarcane lands also continue to become available.

Crop land without irrigation water is of no use for agriculture. Irrigation systems supplying water to former sugarcane lands need to be maintained. Often, millions of dollars in capital improvement must be expended in order to keep the systems operational and in compliance with orders of the Commission on Water Resource Management (e.g., Lower Hamakua Ditch on Hawaii and Waiahole Water System on Oahu).

The State issues long-term leases (up to 55 years) for agricultural operations. Private landowners, on the other hand, are reluctant to commit their land for such a lengthy period. On average, leases from private landowners run from month-to-month to 5 years in duration. There seems to be a need for voluntary incentive programs to encourage private landowners to commit their land to agriculture for a longer period of time.

Crop analysis and market potential

Farmers with innovative and entrepreneurial spirits have been taking advantage of import-replacement opportunities. Armed with the proper information, some of these farmers grow crops to target shortages due to seasonal gaps, weather conditions, wholesale pricing, and transportation issues. Asparagus and cantaloupe, joining the ranks of tomato and bell pepper, are examples of import-replacement crops that are doing well.

Some crops that were traditionally grown to satisfy local consumption have found export opportunities. Export items include banana, papaya, fresh pineapple, ginger root, herbs, and sweet onion. In addition, exports of fresh pineapple and floriculture and nursery products continue to expand as better air-cargo rates are negotiated.

Financial programs to support agriculture

Hawaii's agriculture industry generated \$509 million in farmgate value in 1998, of which \$329 million came from diversified agriculture. Using a conservative multiple factor of 3, the impact of agriculture on the Hawaii economy is about \$1.53 billion. Farmgate value of diversified agriculture has been growing about 4% annually for the past 5 years. It is

expected to continue growing at its current pace. In comparison, the highly visible Hawaii film industry is only about one-third the size of diversified agriculture.

Farming is capital intensive and commercial banks are still the primary sources for loans. DOA's loan program currently addresses the issue of farms unable to qualify for conventional loans. A federal loan program is also available to rural farmers.

Venture capital for agriculture is lacking because investors are attracted to the high technology industry where there is a quicker turn-around and higher return on investment. Since capital is scarce, it is prudent that we pool our resources with public-private partnerships. Additional tax incentives, such as those given to the high-tech industries, could also be given to agriculture to further stimulate growth.

Strategies for promoting, marketing, and distributing Hawaii's agricultural products in local, national, and international markets

A unified logo to identify locally grown and processed produce and food products provides consumers a choice. For years, the "Island Fresh" logo has been used to identify local farm products. Recently, the DOA has approved the "Grown in Hawaii" and "Made in Hawaii" logos to promote export items and is working with various trade associations to place the logos on products.

Agriculture can be promoted cooperatively with tourism. The visitor experience to the islands is enhanced with green/open space, flowers, exotic tropical fruits, and other locally grown products. Agri-tourism stops can be offered as an alternative to the traditional activity centers. Examples of agri-tourism include coffee plantation tours, fresh water fishing in reservoirs, canoeing/kayaking in irrigation ditches, horseback riding in scenic ranches, and self-guided tours of tropical gardens.

The public must be educated on agricultural and other related issues. Most of the public are unaware of the changes to agriculture during the past 3-5 years (e.g. most of the tomatoes are now grown locally within the State). Media coverage on locally-grown products, farming success stories, and agriculture-related issues raise the awareness level of the general public. Direct marketing to a targeted audience (restaurants and specialty stores) could be a model for farmers growing niche crops.

E-commerce is coming. The internet has provided farmers with up-to-date pricing and weather information. On the mainland, farmers purchase fertilizer and supplies online through business-to-business websites. Retailers may ask wholesalers to bid online so that they receive the best pricing on products from vendors. By and large, Hawaii farmers seem to be slow in adopting this new technology.

For local produce, the military commissary is a source of growth. Discussions with commissary personnel revealed a desire to buy locally, even if occasionally at higher prices. If issues on production and marketing can be resolved, it is also possible to sell value-added and long shelf-life agricultural products to commissaries on the mainland and overseas.

Retailers' market-driven voluntary certification programs involving food safety issues are an opportunity for Hawaii farmers to distinguish themselves from others. In the future, farmers unwilling or unable to comply with this type of certification program may not survive.

Human Resource Strategies

Farming can be a challenging and financially rewarding career despite the risks. We need to change the image that farming is pursued by people with few choices in employment. Modern farms are sophisticated businesses run by professional and experienced managers.

There is a need for educated and experienced farm managers if the industry continues to grow at a rapid rate.

Many agricultural workers are in need of technical and management training to advance their careers. Employers have suggested standardized programs where their employees could receive theoretical and practical training. Some of the displaced sugar workers can be retrained and made employable if they upgrade their skills.

We need to encourage entrepreneurship and competitive salaries to improve the living standards of farmers and farm workers.

Distribution/Transportation services and supporting facilities

Distributing products from the farm to the stores or directly to the restaurants is a major obstacle. The Neighbor Islands' farmers face an additional challenge of having to ship produce via barge or air services to Oahu, the state's population center. Marketing opportunities include wholesaling, open markets, swap meets, direct distribution, etc. There seems to be a need for better public and private coordination to help farmers with these activities.

A consolidation center on Oahu has been envisioned as a place for farmers to pack and store their produce. Consolidation arrangements could be made so that only one truck is needed to transport products to produce companies or the docks. The Neighbor Islands' centers may be expanded or extended to facilitate shipment.

Commodity airlift capacity has been a concern to farmers in the export business, especially on the Neighbor Islands. The trend of using narrower-body jets by airlines reduces their capacity to carry LD-3 containers, which is the standard of the industry.

There is a need for individual farmers and/or groups to organize and negotiate more favorable freight rates to improve export competitiveness. A similar need exists to consolidate purchases of materials used in agricultural operations to receive volume discounts.

Other critical elements in agricultural development

Many farmers possess good technical skills, but are lacking management skills. There seems to be a limited number of people who can assist them in making major business decisions. The availability of affordable business and marketing consultants for the farming community is essential for their success.

When people want to enter the farming business, there isn't a centralized location to answer questions. A one-stop agricultural resource center could benefit both new and experienced farmers. In this center, staff could answer questions on business procedures, make referrals to consultants or other agencies, and share information on the latest developments that could affect farming decisions. This center could encourage more people to go into farming if it functions as a "hand-holding" resource for people.

Many farmers need to be kept abreast of the latest environmental laws. People in agriculture need to be proactive and informed on laws and regulations that affect their operations. Continued efforts are needed to work with the Natural Resources Conservation Service (NRCS) to put together plans that will allow farmers to operate in compliance with environmental laws.

Successful farmers use technologies such as the computer and the internet to become more competitive. In the long run, the farmers who are not tech-savvy and innovative will face difficult challenges.

Strategy for legislators and government agencies

If our focus is to help improve the overall economy, we must take the approach of getting the efficient and more successful operations to take the lead because their actions make a difference. We must ensure that land, water, and other resources are made available to allow these firms to succeed.

Conclusion

The focus for Hawaii farmers should be import replacement and export markets. Areas of opportunity are on high-value, high-quality niche crops and value-added products for export. Market-driven food safety certification programs allow Hawaii's products to be distinguished from low-cost/low-quality producers. Some major issues that must be addressed for agricultural development to meet its full potential:


- Resolving the freight and logistical issues that hinder the export business.
- Encouraging farmers to develop business and management skills to run their business.
- Encouraging partnership among farmers, with other private sector groups, as well as with the public sector, to gain cost efficiencies.
- Encouraging long-term agricultural leases.

State of Hawaii
Agribusiness Development Corporation
235 S. Beretania Street, Room 205
Honolulu, HI 96813
Phone: (808) 586-0186 Fax: (808) 586-0189

Memo

Date: March 6, 2001

To: Byron Alcos
Waiahole Water System Manager

From: Alfredo Lee 
Executive Director

Re: Detail Assignment

By this memorandum, I am detailing you to assist Paul Matsuo, Agricultural Resource Management (ARM) Division Administrator, with several projects effective immediately. You will be responsible for assisting in all areas, including the irrigation program. The ARM Administrator, Paul Matsuo, will provide you with the specifics of your assignment and work schedule.

The nature of this assignment is such that we cannot presently determine the length of time it will take to complete. We don't anticipate the assignment lasting more than three to four months. If we need to change the length of this detail, we will be in communication with you.

Thank you for your assistance and please contact the Personnel Office if you have any questions.

C: ARM Division
Personnel
Chairperson, Department of Agriculture
Chairperson, Agribusiness Development Corporation

APPENDIX I

List of water users, leasees and licensees

Waiahole Water System

Water users

Kunia Water Coop members (farmers):

Aloun Farms
Del Monte Fresh Produce
Halm's Enterprises Inc.
Hawaii Agricultural Operations
Hawaii Agriculture Research Center
Larry Jeffs Farms
Mililani Agricultural Park, LLC
Pioneer HI-Bred
Robert Cherry
Sugarland Farms
Syngenta Seeds Inc.
Waikele Farms, Inc.

Non Coop members:

Mililani Golf Club, LLC
Mililani Memorial Park and Mortuary
Puu Makakilo (not billing)
Rodney Santiago
Sueki Yamamoto
Walter Kaluhiokalani
Waiawa Correctional Facility

Kekaha Agricultural Lands

Tenants and water users (licensees and permit holders)

Kekaha Agriculture Association members:

BASF Plant Sciences, LLC
Pioneer Hi-Bred
Sunrise Capital, LLC
Syngenta Seeds
Wines of Kauai
Gay & Robinson

Non-Ag:

Sentre Petroleum
Gary Smith



A Strategic Plan For Hawaii's Agriculture

by
Hawaii Farm Bureau Federation
May 16, 2004

INTRODUCTION

Agriculture is a vital component of Hawaii's economy. It provides Hawaii with a stage for tourism, export products for an otherwise service-oriented economy, a diversity of employment opportunities and lifestyles for its residents, and stewardship for its lands and water. Agriculture also provides environmental benefits, such as enviable air and water quality and recharge of our underground aquifers, and social benefits, such as preservation of our rural communities. Most important, diversified agriculture (crops other than sugarcane and pineapple) has made steady progress, increasing in value by an average of five percent per year over the past 20 years, despite the overall depressed economic condition of the state.

Agriculture also helps fulfill the mandates of Hawaii's constitution. The Hawaii State Constitution, Article XI, Section 1 and 3, states:

"For the benefit of present and future generations, the State and its political subdivisions shall conserve and protect Hawaii's natural beauty and all natural resources, including land, water, air, minerals and energy sources, and shall promote the development and utilization of these resources in a manner consistent with their conservation and in furtherance of the self-sufficiency of the State....". Section 3 further states that "the State shall conserve and protect agricultural lands, promote diversified agriculture, increase agricultural self-sufficiency and assure the availability of agriculturally suitable lands."

Thus, the State of Hawaii recognizes the importance of agriculture in the realization of its vision of conservation, protection, and utilization of Hawaii's natural resources.

Agriculture's role in preserving the rural character and open space important to Hawaii's image is well recognized. Less understood is its role as a base industry for a bustling economy and as a provider of a healthy environment for the people of Hawaii.

Agriculture provided the foundation of Hawaii as we know it today. In contrast to the rest of the United States, where public funds were provided for the development of agricultural land, large corporate entities controlled Hawaii's agriculture in the past. Those private enterprises invested and developed much of the state's present day infrastructure, ranging from vast irrigation and road systems to communities and worker welfare.

As large-scale corporate agriculture declined in the past decade, a perception arose that agriculture in general was declining—yet nothing could be further from the truth. Agriculture has not declined. Rather, its nature has changed. Instead of a few large operations controlled by a

few, we now have many smaller-scale, entrepreneurial ventures controlled by many. Successes and failures have occurred, but the overall result has been the creation of competitive and diverse businesses.

As the number of agricultural operations increases, mechanisms are needed that facilitate collaborative efforts to achieve common goals and enhance agriculture's role in the state's future. Crucial to agriculture's success will be industry leaders who understand the industry's vision, are able to communicate it, and can obtain support to implement needed changes.

Now is the time for the growing agricultural sector to come together and develop a set of common objectives. The mission of the Hawaii Farm Bureau Federation makes it the logical organization to take on the leadership role and become the leading advocate and voice for agriculture. Public and private entities have sponsored various conferences and developed plans for the future direction of agriculture. Using these conferences and plans as a guide, the Hawaii Farm Bureau has formulated a vision for agriculture. What is new in this vision are the diversity of the participants and the collective ownership of the product.

This is the third series of a "living documents" that comprise a strategic plan for Hawaii's agriculture.

VISION

We envision Hawaii's agricultural future to be one in which the priorities for both the private and public sectors include significant amounts of land in profitable agricultural production, maximum opportunities for export and import substitution, increased development of new crops and products, and enhanced marketing of both new and existing crops and products. Landowners, government, and the general population will be aware of the value and significance of agriculture in Hawaii.

We envision agriculture in the future being increasingly diversified, intensive, and technologically sophisticated in the recognition of ever-increasing competition and expansion of regulations intended to protect and preserve our natural environment.

We envision a dynamic private-public partnership in agricultural development. Under strong leadership, the public agencies will be supportive of agriculture with a focus on research, information dissemination, market development, and other support services. Production agriculture will be viewed as an integral part of Hawaii's environmental stewardship. Federal, state, and county policies and regulations affecting agriculture will be assessed and streamlined,

eliminated, or redefined within the context of helping agricultural businesses without compromising public or environmental safety and health. In response to the public sector's recognition of agriculture's role, agriculture will organize itself into collaborative organizations to improve their competitiveness.

PURPOSE

The purpose of this plan is to evaluate the production, financial, marketing, and distribution problems and opportunities facing Hawaii's agriculture. The plan provides a roadmap to formulate a strategy to address issues hindering Hawaii's agriculture and to fully realize its potential. By identifying each issue, attention can be focused on reaching new or different solutions. This third version begins to identify some of the actions that have taken place and sets into the implementation phase of the Plan.

Private sector motivation must be the driver to move these goals and objectives forward. Agriculture should not rely on government or others to determine its future. Government's role must be limited to providing the political, regulatory, and infrastructural support needed to enhance agriculture.

MAJOR ISSUES AFFECTING HAWAII'S AGRICULTURE

Implementation of our vision requires that the following major challenges be resolved. The following are suggested resolutions to be considered in developing an implementation plan. Issues are presented in alphabetical order and not in order of priority.

Land

Large tracts of land fallowed by plantation closures on all islands represent a tremendous opportunity to facilitate the growth of diversified agriculture. These lands are suitable for most soil-dependent agricultural uses. Constraints to growth of diversified agriculture are primarily the availability of arable lands in appropriate lot sizes with the accompanying infrastructure needed for a successful enterprise.

Land issues include:

* The DLNR agricultural lease program needs to be revised to encourage agricultural use of public lands. Examples of the concerns include:

- The current program discourages existing farm tenants from investing in and maintaining their farm operations because they do not know if their leases will be extended. All capital investments on the property are borne by the lessee but cannot be used as credits in the renewal process.
- The existing public land law creates serious uncertainty that existing farm tenants may be able to continue successful operations. for example, the requirement that a farmer who wishes to extend a 35-year lease must first secure a loan is unreasonable for the long-time tenant who has already built infrastructure. Also, a cap of 55 years limits the long term continuation of a successful operation.
- * Agricultural lease rents need to reflect agricultural productivity.
- * Productive agricultural lands are being rezoned for nonagricultural uses.
- * The rezoning of agricultural land into other uses without requiring buffers creates conflict between farmers and the new, nonagricultural occupants of the land. Normal farming activities such as dust, noise, and smells bother occupants close to farms.
- * State- and county-permitted uses of agricultural lands are very broad. Permitting low-intensity, nonagricultural, and recreational uses within agricultural zoning without buffers often creates conflicts and reduces productivity of adjacent farmlands.
- * Land costs for new agricultural operations are too high.
- * Trespass and theft laws are difficult to enforce.

Resolutions to Land issues include:

- Continued dialogue with the State DLNR to ensure that agricultural lease rents, tenure, exclusions, and incentives associated with state-owned lands are conducive to new and existing farm tenants. Discussion should include on how we can promote agribusinesses and, thus protect agricultural lands.
- Transfer DLNR's agricultural leases to DOA.
- Continued dialogue with private landowners to encourage lease structures and rents that are conducive to all parties.
- Dialogue with government agencies to encourage financial and regulatory incentives to landowners and farmers for maintaining lands in agriculture.

- Work closely with the county government to develop their county development plans, tax codes, and ordinances. State and county policies should complement or parallel each other.
- Refine the agricultural industry's position on the best methods of protect important agricultural lands (IAL). Focus on an incentive-based approach to keeping lands in agricultural use while directing development away from productive lands.
- Maintain constant communication with law enforcement agencies and county prosecutors relative to agricultural trespass, theft, and liability issues.
- Educate the general public on the Hawaii Right to Farm Act.

Actions Taken Include:

- Legislation was approved to strengthen the Hawaii Right To Farm Act. (April 2001)
- Participating in the Ag Coalition and the Ag Working Group to discuss protecting important agricultural land and water issues. Dialogue continues with landowners, environmental groups, agribusinesses, and state and county agencies. (Started in January 2002; 2004 Legislature - AWG and administration introduced legislation on important ag lands – measure died in conference)
- Coordinated the Ag Theft Task Force which consists of the county prosecutors and law enforcement agencies, state DOA and DLNR, and farmers and ranchers to address this growing concern. Dialogue continues. (Started in October 2002)
- Enabling legislation was approved that sets the policy to transfer DLNR's agricultural leases to DOA (May 2003)

Water

Land cannot support agriculture without adequate, economical water resources. Plantation closures not only made available large tracts of agricultural land but also left behind extensive irrigation systems such as the Waiahole Ditch, Oahu; the Lower Hamakua Ditch, Big Island; the East and West Kauai Ditch systems, Kauai; and the Honokohau Ditch on Maui. Unfortunately, the closures have also left the water collection and distribution infrastructure decaying and falling into disrepair. This threatens the orderly transition from plantation operations to diversified agricultural enterprises.

In addition, recent regulatory and court decisions, e.g., those that support leaving water resources in their natural state rather than developing them for agricultural use, are threatening these agricultural water sources and systems.

There is continuous need for an efficient and equitable state policy for agricultural water. Profitability of existing enterprises as well as future expansion and success of the industry rely on the development of adequate sources of water suitable for irrigation and the allocation of that water at reasonable rates. Water development programs within the state must be planned with due consideration for actual and potential agricultural development. Similarly, water regulations in the state should support existing and potential agricultural development. There should be a balance between environmental interests and economic benefits.

Incentives are needed to help develop new sources and distribution systems and to maintain the existing systems. Water development has high capital costs and risk. Joint private-public development of water sources to serve agricultural production on adjacent and/or contiguous state and privately owned lands suited for agriculture should be encouraged.

Water issues include:

- * Existing agricultural water ditch systems are in need of repair and maintenance.
- * There is an inadequate supply of water at reasonable cost for agriculture.
- * Regulatory, legal actions, and legal decisions will diminish the sources of economical water for agriculture.
- * The cost of developing water resources is high.
- * The state lacks a comprehensive agricultural water use plan.
- * Agricultural water users have been affected by problems of water shortage, instream standards, drought, and diversion of irrigation water for urban use and are now also threatened by impracticable water quality standards.
- * Drought conditions continue to restrict and hamper the growth of the livestock industry.

Resolution to Water issues include:

- Research and pursue various funding mechanisms for the operation of existing and new irrigation systems such as water irrigation districts and the establishment of a separate

overseeing authority for these water districts (similar to the Hawaii Community Development Authority for Kaka'ako); water cooperatives; etc....

- Evaluate the abandoned or closed plantation irrigation systems to support the transformation out of sugar and pineapple into diversified farms, and encourage the funding for rehabilitation of these irrigation systems and development of supplemental water resources including wells, reservoirs, and aqueducts where needed.
- Establish a water quantity credits system which will provide adequate water for agriculture similar to those that are being developed and used by the EPA for Air Quality credits on emissions from California's industrial firms. This will become effective when farmers transition from flood irrigation to drip, sprinkler to drip, or reservoir to recycle, etc.
- Amend the State Water Code to specify that equal weight shall be given to economic as well as environmental concerns with respect to water.
- Participate in the EMI contested case hearing and support the continued use of East Maui stream waters for agricultural use.
- Re-assess and confer with legal expertise on mounting a legal challenge to the Ruling of the State Supreme Court on the stream restoration issue of the Waiahole Contested Case.
- Work with the Department of Health in developing environmental regulations that will provide agricultural operations with certain exemptions or exclusions as the case maybe from stringent EPA or Clean Water Act requirements that have no bearing for Hawaii's situation. Also develop regulations to allow the use of treated effluent or reclaimed water over the underground aquifer; and work to reduce or eliminate costly and time consuming monitoring, testing, and reporting requirements for using such water for irrigation purposes.
- Work with the Department of Agriculture, Commission on Water Resources Management, the Congressional Delegation and the National Farm Bureau to adequately fund the development of the Agricultural Water Use and Development Plan for the State. Also have each irrigation system's users provide adequate input during the review and comment periods on the Plan. Re-instate the active pursuit for the submission and certification of the Hawaii Drought Plan, Phase I by the U.S. Bureau of Reclamation (BuRec) to the U.S. Congress, as this will activate many drought related financial assistance under the BuRec's drought authority. Further encourage the CWRM to actively pursue funding to prepare phase II of

the Hawaii Drought Plan and submit for BuRec's certification, so it may be sent to the U.S. Congress for acceptance.

- Encourage the efficiency and conservation of agricultural water resources including the development and use of drought resistant crops especially in areas with surface water resources and prone low rainfall regions. Work with CTAHR, HARC, and Soil and Water Conservation Districts to develop educational programs on conserving irrigation water for the crops being produced in these target areas and promote the benefits for installing such water conservation measures on individual farms.
- Organize a statewide water users committee to discuss and resolve issues of commonality.
- Address the liability issues of using recycled water.

Actions Taken include:

- Legislation was approved to provide a 4% tax credit for drought mitigation facilities. (May 2001)
- Legislation was approved to provide over \$12 million in capital improvements for state irrigation systems statewide. (May 2002)
- Capital Improvement Projects approved: \$3 million for Upcountry Kula, Maui dual line system and \$250,000 for Molokai Irrigation System (Approved in 2004 Legislature).
- Funding the maintenance and operation of East Kauai Irrigation System - \$50,000 (Approved in 2004 Legislature).
- Legislation was approved for funding the Ag Water Development Plan. (May 2002 and 2003)
- Introducing legislation that would strengthen the State Water Code. (January 2004 – measure died in subject matter committee.)
- HFBF filed in contested case hearing for East Maui Irrigation System (2003).

Environment and Food Safety

Changes in societal concerns about the environment, healthier diet, and food safety require agriculture to transform its attitudes and practices regarding production, processing, and marketing. Stewardship practices must be implemented or enhanced to protect the soil, water, air quality, and even wildlife habitat. Public expectations have prompted farmers to expend more

resources to rethink their crop protection, waste management, and soil conservation practices. Consumer preferences for diets that focus on health and wellness present opportunities for market channels and production practices that meet this demand. Farming's response to these concerns should take advantage of new market niches.

Global travel and trade make alien pest introductions a threat to local agriculture. Difficulties in implementing abatement measures point to the need to improve mitigation measures.

Environment and Food Safety issues include:

- * Public concern about human and environmental safety will result in stricter controls of pesticide use.
- * Food safety concerns will require new practices in growing, processing, and transportation of agricultural products.
- * Because we have inadequate scientific data, there is uncertainty regarding which farm management practices will be required to comply with environmental regulations such as EPA's Total Maximum Daily Load regulation.
- * Overlapping governmental regulations (federal vs. state vs. county) without coordinated and accessible guidance between agencies are problematic.
- * There is the potential for exorbitant costs to meet environmental regulatory requirements.
- * Farmers and ranchers will be increasingly vulnerable to other government regulations (i.e., Endangered Species Act, Right to Know laws, Clean Air Act, Clean Water Act, etc.) that may impact current practices.
- * Farmers and ranchers may be indirectly impacted by other regulatory controls. For example, they may face higher fuel prices and higher transportation costs due to changes in DOT rules.
- * Farms and ranches are continuously faced with threats of new alien species and the control of alien species introductions.

Resolution to Environment and Food Safety issues include:

- Participate in all levels of regulatory development to ensure laws are applicable to Hawaii (a state made up of islands) and minimize regulatory impacts on the farm.

- Actively seek to have economic impact assessments as a component of all regulatory regulations.
- Promote and implement consumer and producer educational programs on agricultural stewardship and food safety.
- Seek and support data collection efforts to develop critical data needed to develop applicable compliance programs for EPA programs.
- Seek to minimize overlapping governmental regulations to minimize compliance costs.
- Utilize various communication means to increase industry awareness of various regulations.
- Educate regulators of agricultural operations to allow for informed decisions.

Research and Development

The University of Hawaii, College of Tropical Agriculture and Human Resources, the Hawaii Agriculture Research Center, the Hawaii State Department of Agriculture, and the U.S. Department of Agriculture Pacific Basin Agricultural Research Center must work collaboratively to expand their research efforts for agriculture with an emphasis on locally produced products. Priorities lie in the improvement of cultural practices for currently grown products, development of new crops and value-added products, improvements in processing procedures, and development of new postharvest systems that improve the transport and handling of products. New technologies such as biotechnology should be aggressively pursued to provide a competitive edge to Hawaii's agriculture in the market place. Public education is an important element in the development of any new technology to alleviate misperceptions and fears.

Research and development issues include:

- * Identify ways to reduce cost of production (yield increase, input cost reduction, improved cultural practices, pest and disease resistance, etc.).
- * Improve pathways for technology transfer to ensure that information is available to the farmers on a timely basis.
- * Seek, develop, and provide education for new production and processing techniques.
- * Improve coordination between industry requirements and research including market development vs. research of new crops.

Resolution to Research and Development issues include:

- Aggressively identify and implement means to increase State's ability to carry out agricultural research capabilities.
- Form collaborative relationships with non-agricultural entrepreneurs to increase and encourage value added product developments.
- Organize systematic communication systems between research organizations and the agricultural industry.
- Develop collaborative relationships with other States and Countries to remain current with advancements in the field.
- Develop State and County policies that encourage Hawaii as a favored locale for agricultural research.
- Increase resources for agricultural research.

Actions Taken include:

- Legislation was approved that provides approximately \$1 million for agricultural research and market development - \$500,000 grant in aid to HFBF and \$500,000 for CTAHR.
(May 2004 – approved in Legislature)

Marketing and Competitiveness

Hawaii's small size and isolated location provide challenges to the farmer in the global marketplace. Local markets are finite. Exports are a necessity. At one time, Hawaii enjoyed the lion's share of the market for pineapples, macadamia nuts, anthuriums, and other commodities. Foreign regions with similar climatic conditions began producing the same commodities. Considerable effort and funds were expended to develop these crops and their markets. Unfortunately, much of the technological information has been made available to our competitors, creating formidable foreign competition.

All of Hawaii's agricultural exports must be competitive in the world market. Existing costs of production require that Hawaii rely on uniqueness, quality, service, and image to be competitive. Exported Hawaiian products must not only be unique but should also be of high value. The industry must be entrepreneurial, responsive to change, and able to function under

adverse conditions. Many challenges such as trade policies are beyond the farmer's control; however, the industry needs to find ways to mitigate these barriers.

Marketing and Competitiveness issues include:

- * We need to develop systems for food and fiber self-sufficiency for the state of Hawaii.
- * The cost of doing business in Hawaii is high. One example is the high cost of production inputs (i.e., feed, fertilizer, utilities, labor, and other supplies and equipment).
- * Some of our products are of inconsistent quality.
- * Quarantine requirements are restrictive for Hawaii products being exported to the U.S. mainland as well as foreign destinations such as Japan.
- * Global competition pressures are increasing.
- * Farming and commodity groups are fragmented due to lack of organizational leadership and coordination.
- * Transportation costs are high for both import and export of agricultural products; inter-island shipping schedules are limited, as is cargo lift capacity out of Hawaii.
- * Value-added options are limited for all of Hawaii's agricultural crops, especially for specialty crops.
- * Available value-added options produce minimal profit margins because they lack sufficient certified processing capabilities.
- * We have insufficient foreign market information and promotional efforts.

Resolution to Marketing and Competitiveness issues include:

- Foster organization of cooperatives to increase purchase and sales competitiveness
- Initiate dialogue with wholesalers and retailers to pursue import replacement opportunities.
- Develop programs to cultivate the development of value added products, reducing the reliance of direct raw product sales.
- Improve foreign market access information availability. Received grant to research and explore market access to China (2003)
- Seek cross marketing, exports, and other opportunities to address transportation issues.
- Recognize agri-tourism activities as an integral part of agriculture.

- Encourage all government agencies to purchase locally grown and processed products.
- Provide for fund for the capital improvements for the Kauai Disinfestation Facility - \$150,000. (Approved in 2004 Legislature)

Transportation

Hawaii's position as the world's most isolated location, as well as its being a series of islands, presents a major challenge to the state's agriculture industry: transport options for agriculture are limited to air and sea if one wishes to move commodities off an island. This limits growers' abilities to be competitive in the world market. Hawaii must find ways to overcome these barriers.

Transportation issues include:

- * Airport and harbor facilities need improvements to meet new food safety laws and to ensure quality of perishable goods.
- * Lift capacity out of Hawaii is limited.
- * Airport and harbor consolidation facilities are inadequate to effectively hold and transport agricultural products.
- * Inter-island transportation needs to be improved.
- * Federal regulations limit the amount of surface and air transport of agricultural products between Hawaii and other U.S. ports.
- * The cattle industry lacks proper holding facilities at various ports and needs customized shipping capacity to transport cattle.

Resolution of Transportation issues include:

- Seek dedicated freight carriers
- Amend the Federal Highway Act to include over sea transportation for island states and territories. This will increase funds for capital improvements to Hawaii harbors.
- Accelerate the development of consolidation facilities at the airports and harbors.
- Actively participate in the Hawaii Transportation Study, authorized in the 2002 Farm Bill.

- Amend the Jones Act or allow an exemption to allow foreign ships to provide services to and from Hawaii.
- Encourage the State or private firm to establish a ferry system for inter-island transportation.

Taxation and Fees

A basic tenet for government involvement should be to provide policies and incentives that support and encourage thriving business enterprises. There should be a taxation package that provides optimal inducement for entrepreneurs to invest in the transformation of Hawaii's agricultural industry. This has the potential to provide key incentives to induce the private sector, but a favorable taxation package should not be the only incentive to encourage future agriculture development in Hawaii.

As regulatory burdens on agriculture increase, so do permitting fees as government agencies strive to be self-sufficient in their costs to do business. Regulatory compliance costs and permitting fees increase the cost of production and can significantly impact the productivity of new enterprises.

Taxation and Fee issues include:

- * Hawaii's general excise tax law creates a pyramiding of taxes that increases the cost of input and production. (Example: A farmer charges 0.5% to the wholesaler, the wholesaler charges an additional 0.5% to the stores, the stores will charge an additional 4% to the consumer, resulting in a net total of over 5%, if transportation taxes are added.) Some of the items purchased by the farmer are subject to the 4% tax.
- * Taxation policies for fallow lands are not addressed in some counties, especially when in tree and fruit crops, which take 8 to 10 years to production.
- * Certain agricultural practices that benefit society are nevertheless subjected to high permitting fees and regulatory costs. (Examples: Air permits and monitoring costs for burning of biomass to replace fossil fuel use; permitting and monitoring costs for wastewater reuse.)

Resolution of Taxation and Fee issues include:

- Reduce tax rates for long term producing crops (i.e. orchard farms, forestry, etc....) and other new crops that have potential in Hawaii.
- Protect agricultural lands from increased taxes due to development of adjacent land.
- Provide a tax break for landowners that improve their land for agricultural purposes. For example, if a landowner wants to make capital improvements (i.e. roads, utilities, irrigation systems, etc.) to attract farmers, they will get a tax break.
- Provide a real property tax and other tax incentives for lands dedicated for agricultural use for a minimum of 20 years. (May 2004 – pursuing amendment to the Honolulu Real Property Tax Code for agriculture.
- Educate the tax department to implement a biomass definition, supporting and encouraging biomass development in Hawaii.
- Establish a continuing education program to educate farmers of tax laws applicable to agriculture.
- Provide a retroactive payment for deferred taxes.

Farm Management and Labor

Agricultural enterprises continuously need an adequate supply of a properly trained labor force. Our vision of Hawaii's agricultural industry as an entrepreneurial, competitive industry requires a highly skilled, innovative work force. As the industry grows, private-public partnerships need to identify methods to aggressively start and/or nurture the development of successful agricultural and agriculture-related enterprises. National data show that 80 percent of enterprises developed under conditions such as an "incubation environment" are still in existence after five years, in comparison to only 25 percent for those that did not have such a benefit. Practical training, particularly in business and financial management, is critical for many independent farmers who may lack formal education in these subjects. The shortage of willing and able workers, affordable housing for farm workers, and competition from alternative employment are several of the pressing farm-labor related issues that need to be addressed.

Farm management and labor issues include:

*There is a lack of a training and support structure to begin and assist new agricultural enterprises.

- * A qualified workforce must be trained to meet management and labor needs for expansion in the agricultural industry.
- * Agricultural workers lack affordable housing.
- * Transportation modes to get farm workers to and from work areas are lacking.
- * Mandated labor costs (i.e., wages, workers compensation, unemployment, etc.) are high.
- * Seasonal workers or contract hires are treated as regular employees.
- * Alternative employment (manufacturing and construction) often pays its employees more than farmers are willing or able to pay.

Resolutions to Farm Management and Labor issues include:

- Intensify research in mechanization options.
- Develop employee education/job training programs to match employee abilities with wage rates to keep operations competitive.
- Determine the labor requirement for economic farm units of various commodities, and the aggregate labor demand by commodity.
- Labor resources should be increased, through the combined cooperative efforts of industry, labor organizations and government agencies involved.
- Dialogue with other business organizations and government to find ways of controlling regular business expenses (i.e. health and liability insurance)
- Encourage farmers to study their labor problems from the viewpoint of the hired employer and in terms of long-range solutions. Such effort should assure that working conditions and productivity are to the mutual satisfaction of both the employee and the employer.
- There should be continuing education programs that are specific to agricultural labor laws.
- Seasonal agricultural worker status must be redefined or reclassified by the federal and state as an independent contractor.
- Providing adequate housing, improving wages, working conditions, and developing sound labor-management relationships.
- Improve and encourage our public education system to provide technical and hands on experience in agribusiness.

CONCLUSION

Hawaii's economic health is currently in a precarious condition. The state's economy is assessed as one of the worst in the country, due primarily to the decline in the visitor industry, now exacerbated by the events of September 11, 2001. The state must build a diverse economy that has the capacity to buffer against downturns of individual industries. A balanced economy will arise from using Hawaii's unique assets in diverse ways. Complementary and synergistic use of resources will increase our ability to buffer against negative impacts of national and international events beyond local control. Agriculture is a means of obtaining economic benefit from Hawaii's natural resources.

The Hawaii Farm Bureau has prepared this "living document" to assist in focusing on improving Hawaii's agricultural industry. As described in this document, some of these issues are currently being addressed. Some have short-term solutions while others require long-term efforts. Now that we have identified some of the major key issues facing Hawaii's agricultural industry, we must take action to resolve or mitigate the problems. As you can see, we have already begun implementing this document through legislation and administrative actions. However, much work still needs to be done. We will continue to seek your active participation and support as we begin this most difficult process of resolution and implementation.

APPENDIX K

Department of Agriculture Annual Report, Annual Operating Budget FY 1994-1995 to FY 2004-2005

Annual Operating Budget (Source: DOA annual report)

	FY	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Agribusiness Development Revolving Fund												
Beg. Balance	\$	245,000	\$ 203,200	\$ 278,635	\$ 192,108	\$ 164,803	\$ 83,095	\$ 109,924	\$ 454,225	\$ 773,118	\$ 745,592	\$ 827,917
Receipts			\$ 207,750		\$ 158,200	\$ 190,558	\$ 245,258	\$ 569,528	\$ 628,056	\$ 350,862	\$ 420,125	\$ 466,965
Expenditures	\$	41,800	\$ 132,315	\$ 86,527	\$ 185,505	\$ 272,266	\$ 218,429	\$ 225,227	\$ 309,163	\$ 378,388	\$ 337,799	\$ 396,958
End. Balance	\$	203,200	\$ 278,635	\$ 192,108	\$ 164,803	\$ 83,095	\$ 109,924	\$ 454,225	\$ 773,118	\$ 745,592	\$ 827,918	\$ 897,924
Waiahole Water System Revolving Fund												
Beg. Balance					\$	\$ 544,200	\$ 1,332,330	\$ 1,524,552	\$ 1,567,782	\$ 1,264,234	\$ 919,854	
Receipts					\$	550,000	\$ 1,232,612	\$ 780,802	\$ 754,272	\$ 829,261	\$ 918,991	\$ 773,117
Expenditures					\$	5,800	\$ 444,482	\$ 588,580	\$ 711,042	\$ 1,132,809	\$ 1,263,371	\$ 856,582
End. Balance					\$	544,200	\$ 1,332,330	\$ 1,524,552	\$ 1,567,782	\$ 1,264,234	\$ 919,854	\$ 836,389

*\$400,000 was transferred from the WWS Revolving Fund to the general fund in FY 2003-2004.

